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THE BABCOCK & WILCOX COMPANY

SEVENTY-SIXTH ANNUAL REPORT

1956

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DIRECTORS

A. G. Pratt, *Chairman*
Edward L. Cochrane
Alfred Iddles
E. A. Livingstone
Paul D. Merica
C. W. Middleton
M. Nielsen
Stoddard M. Stevens
B. A. Tompkins
John C. Traphagen
L. S. Wilcoxson

OFFICERS

Alfred Iddles, *President*
M. Nielsen, *Executive Vice President*
Edward A. Livingstone, *Vice President*
S. T. Mackenzie, *Vice President*
Alan E. Phin, *Vice President*
W. H. Rowand, *Vice President*
W. D. Sullivan, *Vice President*
W. J. Thomas, *Vice President*
L. S. Wilcoxson, *Vice President*
P. H. Forbes, *Comptroller*
W. G. Dryden, *Treasurer*
Martin Victor, *Secretary*
R. J. Cantwell, *Assistant Comptroller*
N. K. Feldman, *Assistant Comptroller*
R. D. Wing, *Assistant Comptroller*

General Offices—161 East 42nd Street,
New York 17, New York
Stock Transfer Agent—Bankers Trust Company,
16 Wall Street, New York 15, New York
Registrar—The Bank of New York,
48 Wall Street, New York 15, New York
General Counsel—Sullivan & Cromwell
Auditors—Price Waterhouse & Co.

THE BABCOCK & WILCOX COMPANY

76TH

ANNUAL REPORT
TO THE STOCKHOLDERS
FOR THE YEAR ENDED DECEMBER 31

1956

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THE BABCOCK & WILCOX COMPANY

HIGHLIGHTS
1956
1955
1954

	1956	***1955***	***1954***
Sales (Shipments)	$281,485,168	$233,291,460	$250,471,178
Income before U. S. and Canadian taxes on income and minority interest	29,604,480	30,197,477	30,855,234
Income for the year	14,080,981	13,486,717	15,211,990
Dividends declared—Cash	5,145,654	4,900,623	3,111,508
Dividends declared—Stock	8,760,000	7,470,000	4,500,000
Amount added to Retained Earnings	175,327	1,116,094	7,600,482
Stockholders' equity	126,149,920	117,214,593	106,378,499
Per Share outstanding December 31, 1956			
Income for the year	$2.74	$2.62	$2.96
Cash dividends declared	1.00	.95	.60
Stock dividends declared	4%	5%	5%
Stockholders' equity	24.52	22.78	20.67
Expenditures for property, plant and equipment	15,921,306	12,641,142	3,792,258
Depreciation and amortization	6,699,297	6,249,695	5,233,693
Net property, plant and equipment	49,830,350	40,657,196	34,289,028
Working Capital	106,819,878	85,300,079	80,969,463
Long term borrowings	32,000,000	10,000,000	10,000,000
Payrolls, pensions, social security taxes, insurance and other employee benefits	115,577,952	97,212,278	93,842,675
Orders received	495,257,000	317,283,000	192,199,000
Unfilled orders	427,228,000	213,456,000	129,464,000
Average number of employees during year	21,033	18,530	18,893
Number of stockholders	10,118	6,671	6,039
Number of shares of capital stock outstanding	5,145,654	1,633,541	1,555,754

PRESIDENT'S LETTER

To the Stockholders of
The Babcock & Wilcox Company

The year 1956 marked the one-hundredth anniversary of Stephen Wilcox's first boiler patent. That was the fundamental engineering invention upon which The Babcock & Wilcox Company grew and thrived. As the years went by, it integrated and achieved diversification by making and selling products allied to boilers for many different purposes. At the present time about forty percent of the Company's total dollar output is sold in the form of tubes and refractories and, because the business cycles of these newer divisions vary from that of the Boiler Division, the diversification has a desirable stabilizing effect on overall Company operations.

Shipments in 1956 considerably exceeded those made in 1955 and profits were moderately greater. A very great number of orders were booked and the backlog reached an all time high of $427,228,000. This backlog should result in increased shipments in 1957.

The Company has been growing rapidly and it has not been possible to generate sufficient funds internally to finance the requirements for necessary new facilities and working capital. Therefore, in June 1956 we increased our long term borrowings from $10,000,000 to $32,000,000.

In April 1956 the outstanding shares were split three-for-one, which action probably contributed to the growth in the number of stockholders from 6,671 on December 31, 1955 to 10,118 on December 31, 1956.

Our interest and activity in the nuclear energy field continues and in this past year we received several important contracts. However, the activities of the Atomic Energy Division are designed to provide the skill and experience which will be needed as this source of power is increasingly used in the years to come. We cannot predict when the activities of this division will become profitable.

The overall long term prospects appear excellent for the future of your Company.

FOR THE BOARD OF DIRECTORS

Alfred Iddles

ALFRED IDDLES,
President

New York, N. Y.
February 21, 1957

1956 IN REVIEW

The figures given in this report are those resulting from a consolidation of the financial statements of the parent Company and its subsidiaries, Bailey Meter Company, Diamond Power Specialty Corporation and A. M. Lockett & Co., Limited.

EARNINGS

Consolidated net income for 1956 is shown below in comparison with results for 1955 and 1954:

	1956	*1955*	*1954*
Net Income	$14,081,000	$13,487,000	$15,212,000
*Earned per Share**	$2.74	$2.62	$2.96

** Based on 5,145,654 shares outstanding on December 31, 1956.*

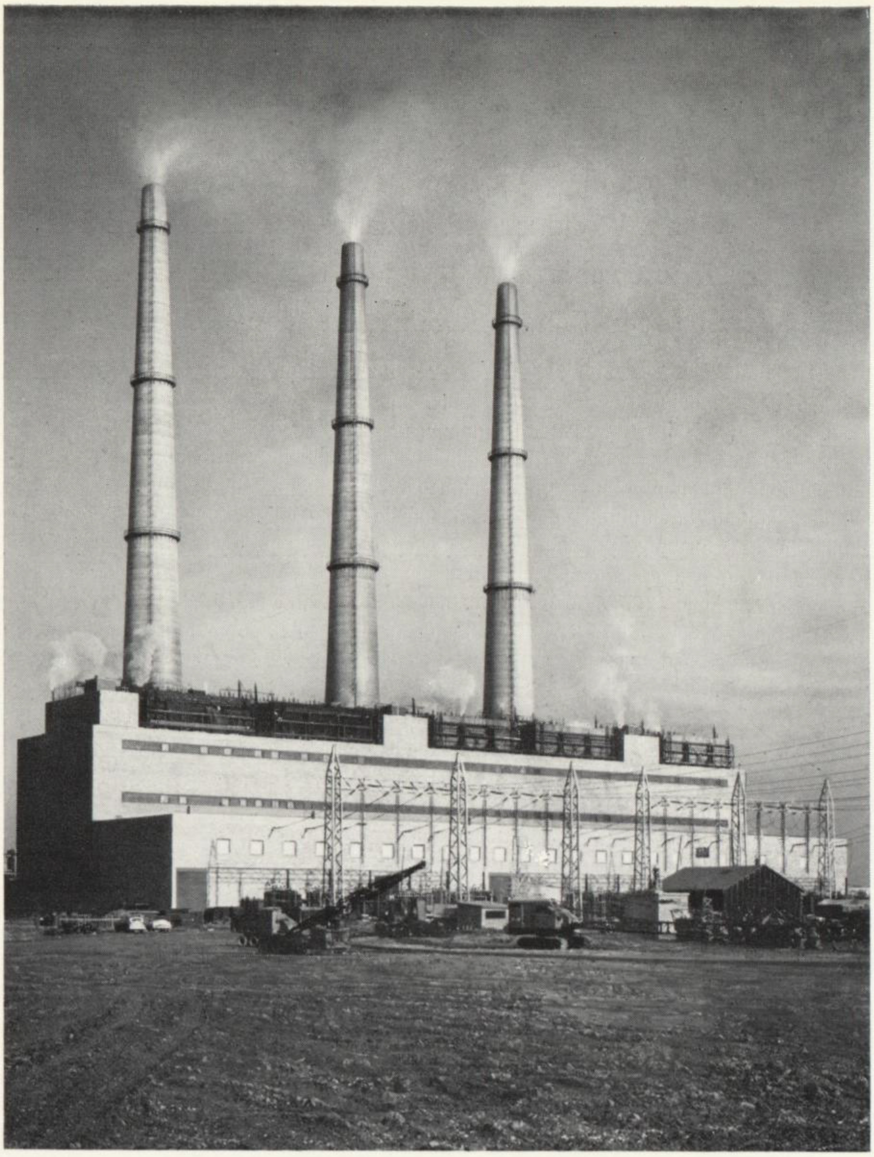
Shipments during 1956 amounted to $281,485,000, 21% more than the previous year.

DIVIDENDS

Cash dividends declared during 1956 were the equivalent of $1.00 per share on the shares outstanding at the end of the year. In addition, a stock dividend of four per cent was declared payable January 4, 1957 to stockholders of record December 12, 1956. The payment of this stock dividend resulted in the issuance of 205,826 shares and the transfer of $8,760,000 from Retained Earnings to Capital Account. This is the fifth consecutive year in which a stock dividend has been declared.

FINANCIAL

Early in 1956 it became evident that the volume of shipments would build up appreciably by the end of the year and would continue to increase well into 1957. It was also obvious that the funds to be generated within the business would



The Kyger Creek Plant of the Ohio Valley Electric Corporation, equipped with B&W boilers, is the most efficient power plant in the United States, according to the latest Federal Power Commission reports.

B&W's Lynchburg, Virginia, Nuclear Facilities Plant for the manufacture of Atomic Fuel Elements. The first shipment of elements was made in July, 1956.

not be sufficient to finance the anticipated increase in inventories and receivables in addition to the cost of the facilities required for greater production. Therefore, on June 1, our long term borrowings were increased, by private placement, from $10,000,000 to $32,000,000. This was accomplished in the following way:

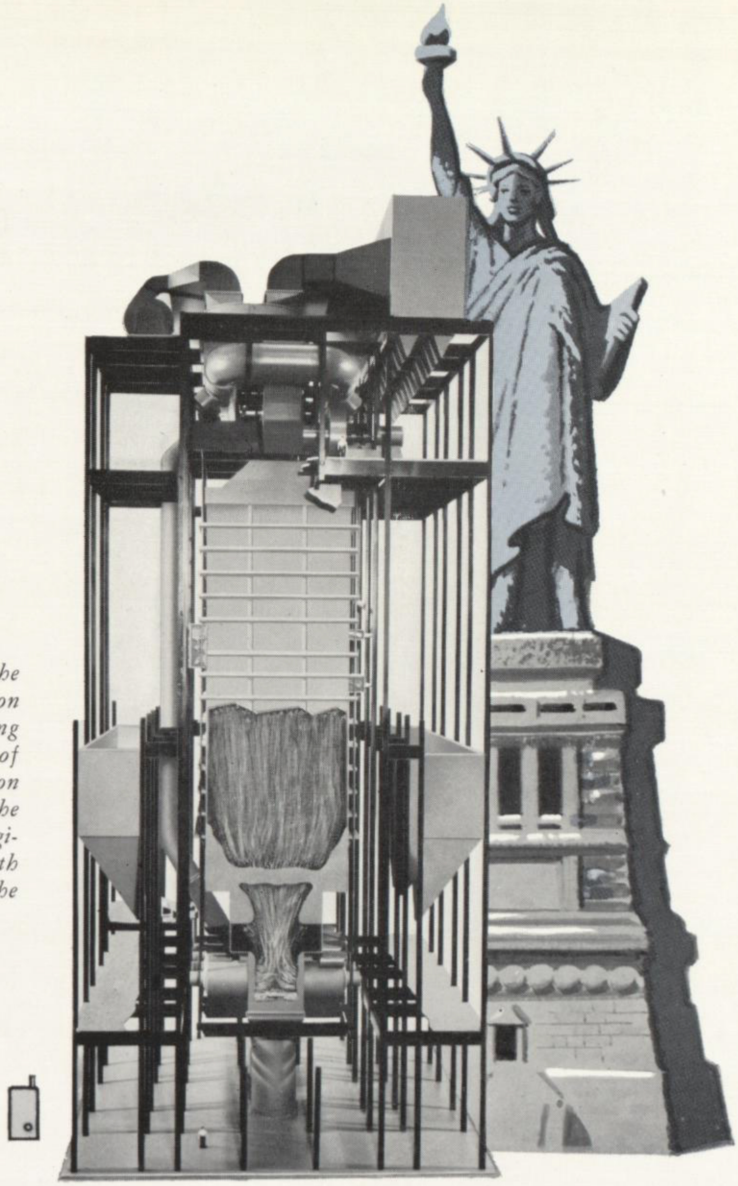
Fifteen year 3¼% notes previously outstanding	$10,000,000
Paid off	1,000,000
Remainder refunded with eighteen year 3⅝% notes	9,000,000
New loan—eighteen year 3⅞% notes	23,000,000
	$32,000,000

Those factors contributed largely to the note-worthy changes in the Company's financial position set out in the succeeding tabulation:

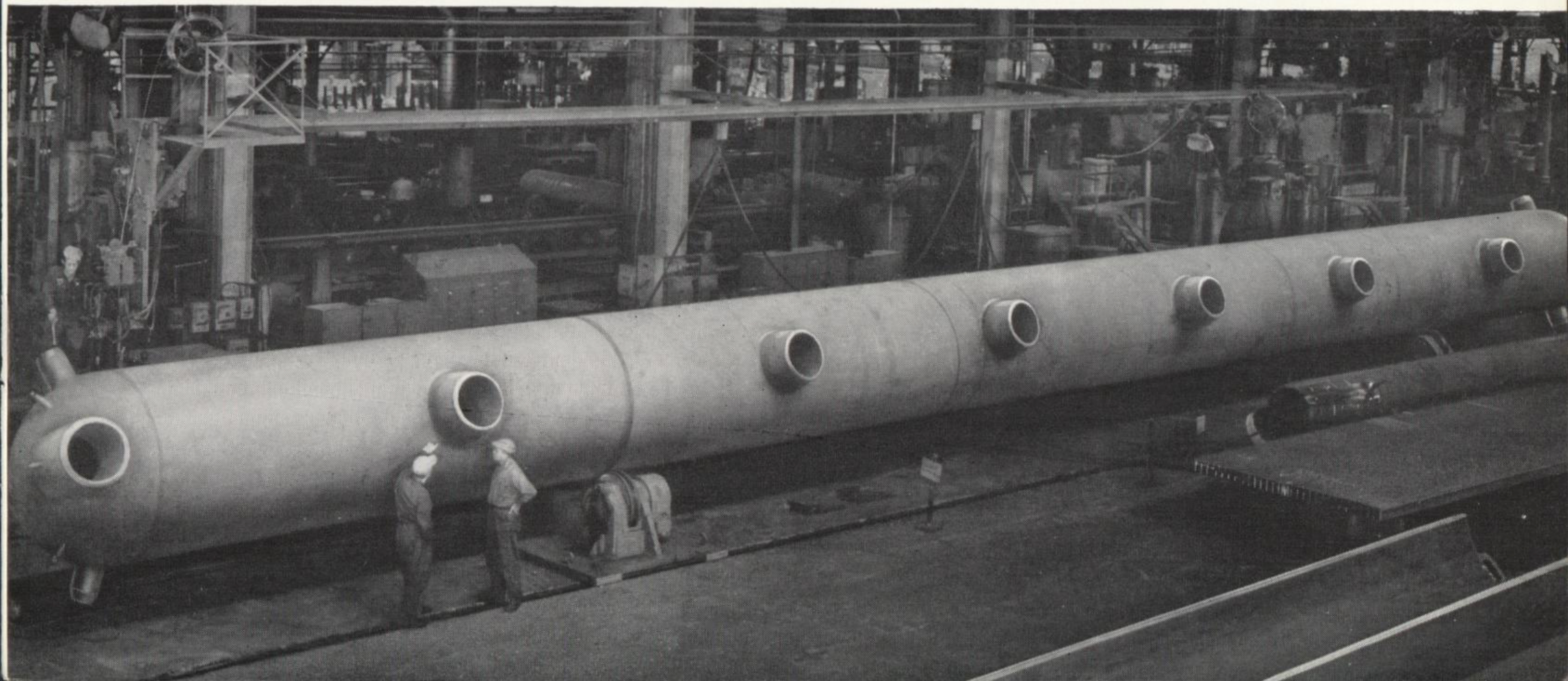
	December 31, 1956	*December 31, 1955*
Cash and Government Securities	$ 16,577,000	$ 22,989,000
Inventories and Receivables	131,614,000	99,887,000
Working Capital	106,820,000	85,300,000
Property, Plant & Equipment	49,830,000	40,657,000
Long Term Borrowings	32,000,000	10,000,000
Stockholders' Equity	126,150,000	117,215,000

A three-for-one split-up and change from no par value to par value of $9.00 per share of issued and outstanding capital stock of the Company, together with a change in the authorized capital stock to 9,000,000 shares with the par value of $9.00 per share, were approved at the annual meeting of stockholders held on April 4, 1956. Those changes became effective shortly thereafter so that on December 31, 1956 there were 5,145,654 shares of $9 par value capital stock issued, not including 205,826 shares declared in 1956 as a 4% stock dividend payable January 1957.

This giant steam generator—nearly as tall as the Statue of Liberty—will serve a turbo-generator on the American Gas and Electric System producing enough electricity to meet the residential needs of a city of 4,000,000 people. It and a companion unit will be the largest steam generators in the world. Some idea of the span of boiler sizes engineered by B&W may be had by comparison with the small shop-assembled boiler at the left of the large unit.



The world's largest steam drum, more than 100 feet long and weighing over 200 tons, is part of a new B&W Radiant Boiler to be installed at the Astoria Station of Consolidated Edison Company of New York, Inc. A similar unit will also be supplied for that Company's Arthur Kill Station.



PROPERTY, PLANT AND EQUIPMENT

Expenditures during 1956 for property, plant and equipment amounted to $15,921,000, considerably more than had ever before been expended in one year. Unexpended appropriations authorized by the Board at the end of the year totaled $10,492,000.

Amortization permitted over a five year period by Necessity Certificates amounted to a total of $16,339,000 at the end of 1956. The total amortization taken to that date was $12,449,000.

EMPLOYEES

During the year the Company employed an average of 21,000 persons. Employees were covered by a total of $141,600,000 of group life insurance at the end of 1956. Payments to the Retirement and Pension trust funds for the year totaled $3,170,751.

There is a shortage of the engineers, scientists and technicians so necessary in our business. The Company has taken steps to assist in bettering the situation, by making donations to engineering colleges and schools and by encouraging and assisting its employees to take courses designed to prepare them for more advanced work.

ORDERS

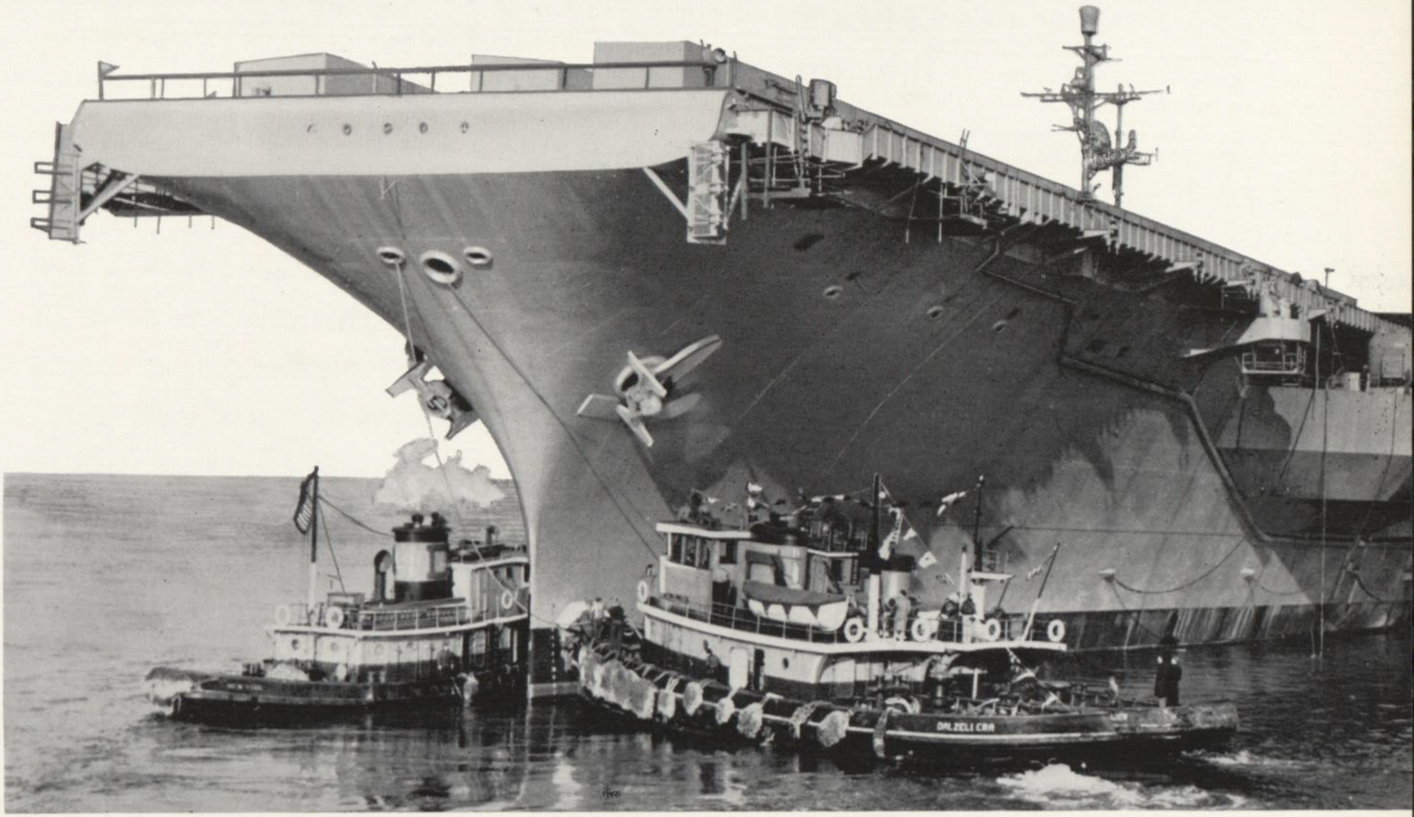
Orders received in 1956 and the backlog at the end of the year were both the highest in the Company's history. The following summary gives orders received, shipments and unfilled orders for the past three years.

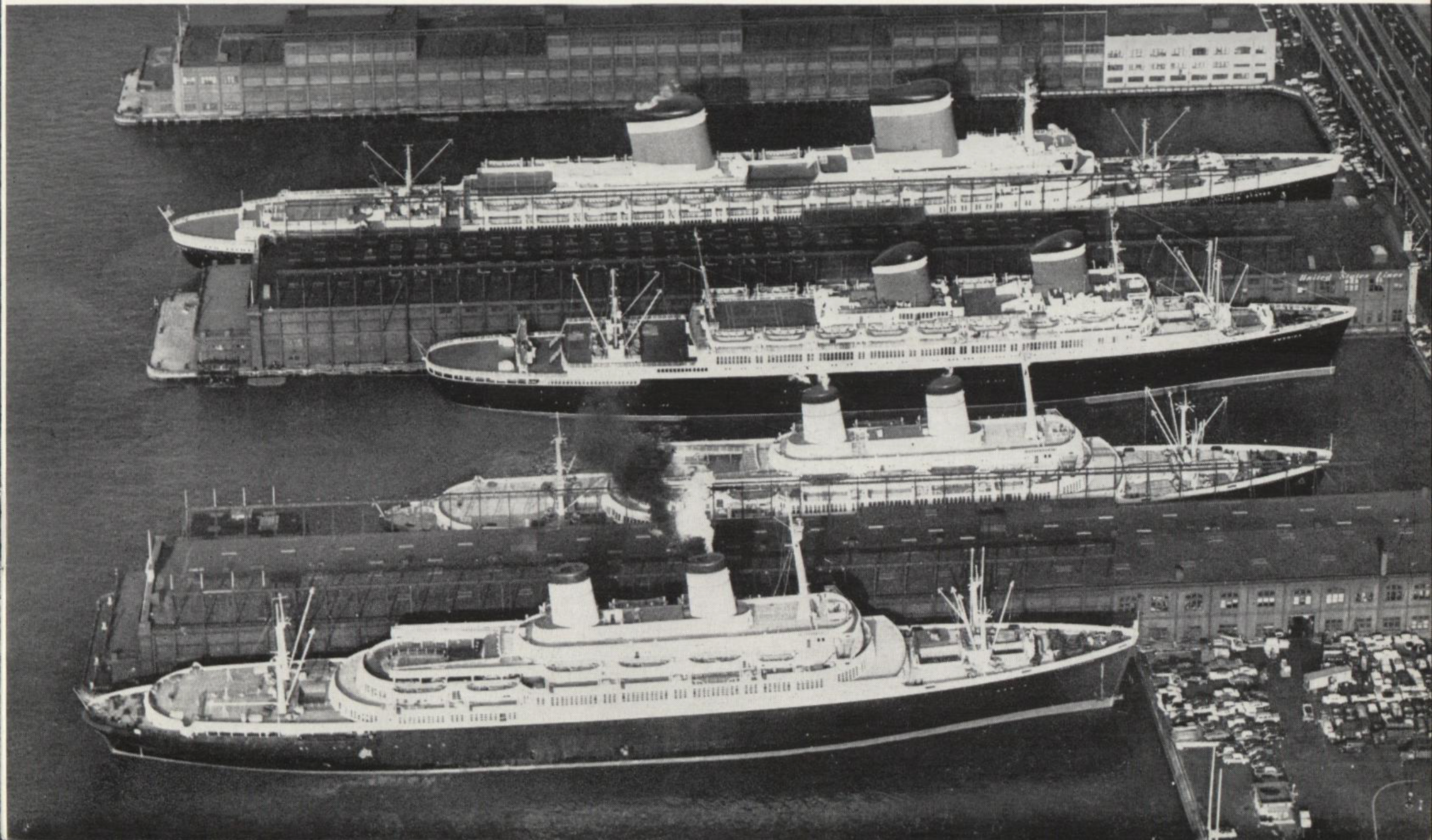
	Orders Received	*Shipments*	*Unfilled Orders End of Year*
1954....	$192,199,000	$250,471,000	$129,464,000
1955....	317,283,000	233,291,000	213,456,000
1956....	495,257,000	281,485,000	427,228,000

A considerable part of our backlog is for large steam generating units that will not be shipped until 1958 or later. It is not expected that the volume of new orders in 1957 will be as great as in 1956. However, the long range outlook is good.

The four largest passenger vessels in the U. S. Merchant Marine are all equipped with B&W Marine Boilers. From the top, they are the blue-ribbon holder SS UNITED STATES *and the* SS AMERICA, *both of the U. S. Lines; and the* SS INDEPENDENCE *and* SS CONSTITUTION *of the American Export Lines.*

The USS SARATOGA *takes her place along with the* USS FORRESTAL *as one of the mightiest of all aircraft carriers. Both of these vessels are equipped with B&W Marine Boilers, as are also the* USS RANGER *and* USS INDEPENDENCE *which are now under construction.*





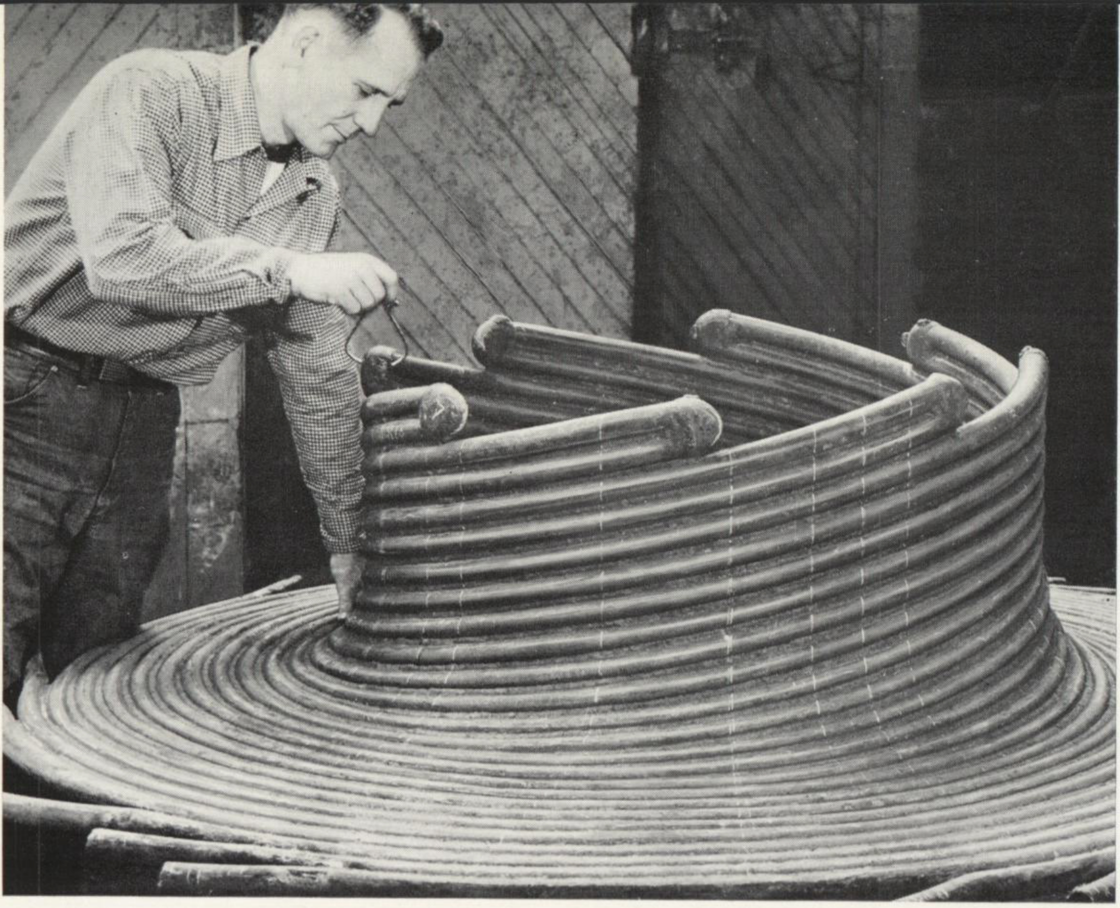
BOILER DIVISION

The demand for Boiler Division products was at an unprecedented level in 1956. This covered the entire range of boilers from small shop-assembled units to the largest steam generators ever projected.

The first Supercritical Pressure Steam Generator—which delivers steam at a pressure of 4,500 pounds per square inch and a temperature of 1,150 degrees—was completed and ready to operate in 1956 but is awaiting other plant components. This new type of steam generator has aroused considerable interest because of the promise it holds for increasing efficiency of steam-electric generating plants. Orders were received during the year for two additional units of this type. These are the largest units under construction in the world. Standing nearly as tall as the Statue of Liberty, each will supply 2,900,000 pounds of steam an hour to a 450,000 kilowatt turbine producing sufficient electricity to fill the residential needs of a city of 4,000,000 people.

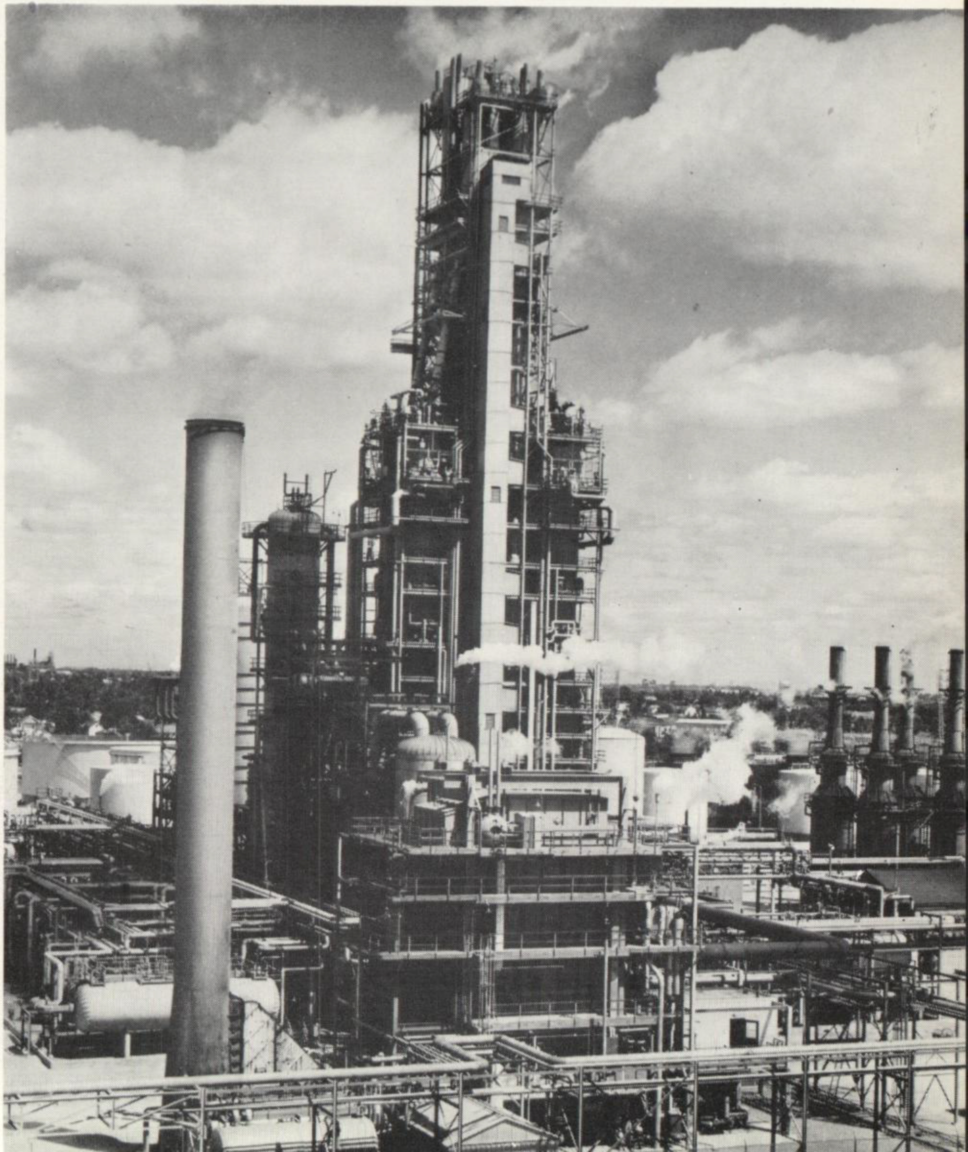
Sales of boilers fired by Cyclone Furnaces have reached a gratifying level. This significant engineering advance in coal burning equipment is coming more and more into use, and, together with our highly developed pulverized-fuel, oil and gas burning equipment, gives us the ability to serve customers having many different problems in fuel burning.

The sale of boilers for industrial use and for public buildings and institutions continues satisfactorily. The shop-assembled designs pioneered by us are widely used and plans are under way to build them for even larger capacities. The sale of boilers for special applications — such as Carbon Monoxide units for oil refineries and Chemical Recovery units for the pulp and paper industry — have been at a high level. There is also a strong demand for our Marine Boiler designs for use in naval vessels, tankers, cargo ships and passenger ships.



B&W's engineering and manufacturing skills are often called upon to produce some unusual designs and structures in the fields of pressure vessels and process equipment, such as this header protection coil for a combination reactor and heat exchanger in a petro-chemical plant.

Many industries, such as petroleum processing, pulp and paper manufacturing, and steel making, produce waste gases which, if burned, could effect worthwhile savings in production costs. B&W engineers have a notable record of solving problems of this type. A current example is the Carbon Monoxide Boiler. Applied to catalytic cracking units such as shown in the adjacent photograph, these boilers burn gases given off in the catalytic refining process and produce steam for refinery needs. Since their development a few years ago, a great many of these units have been sold and placed in successful operation.



ATOMIC ENERGY DIVISION

During 1956 the Company received orders for several important atomic energy projects, and was selected by the Atomic Energy Commission to negotiate for the contract to design and build the nuclear propulsion plant for the nation's first atom-powered merchant ship. The Atomic Energy Division is engaged in a number of feasibility and engineering studies both for the government and for private power groups.

Of the several full-sized nuclear power plants now under way, the first to be licensed by the A.E.C. was the Indian Point plant of the Consolidated Edison Company of New York, Inc. As announced in 1955, B&W received the contract for the entire nuclear steam generating section of this plant. Engineering and design work are now well under way and it is expected that this plant will be in operation by 1960.

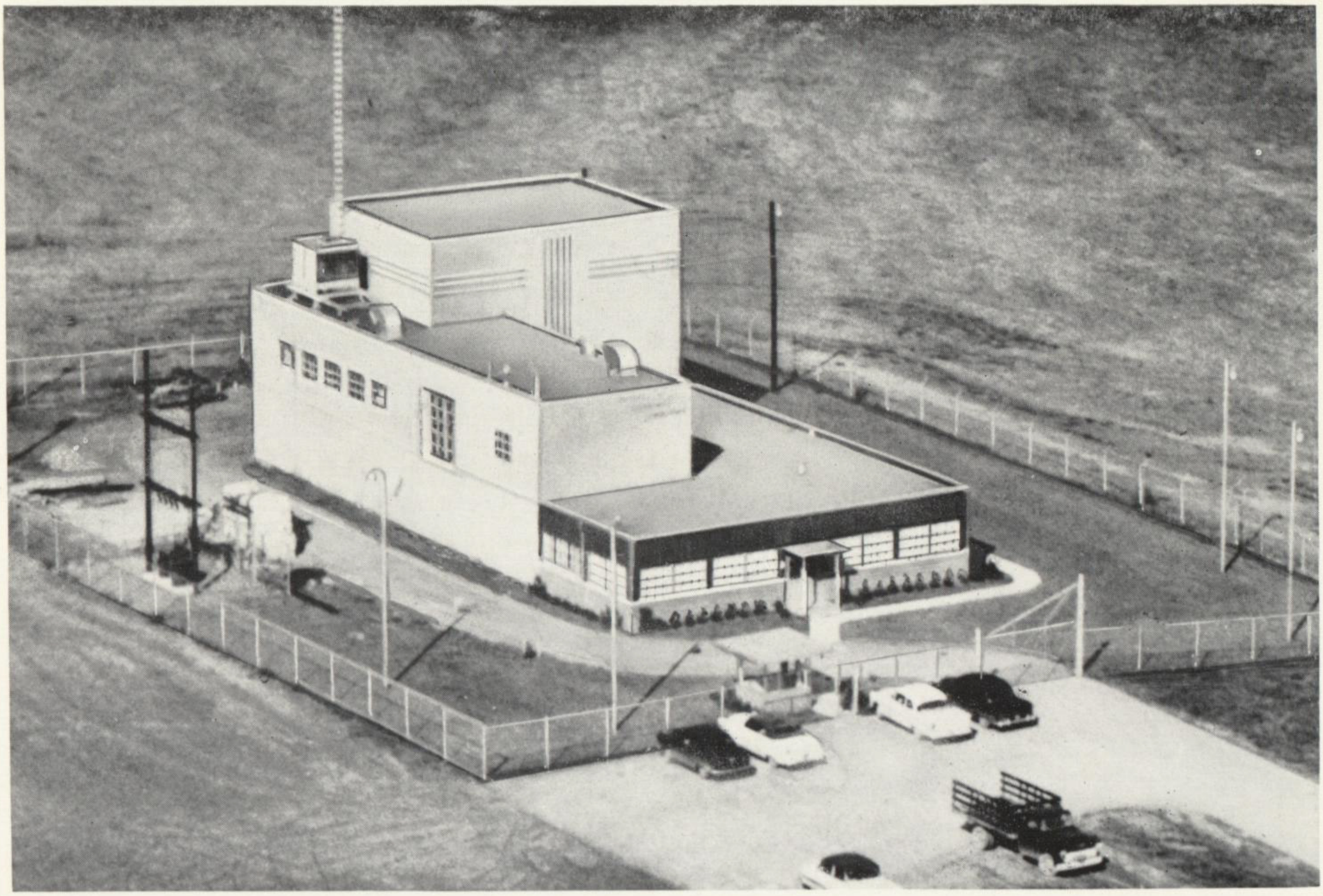
The Company's Fuel Element Plant at Lynchburg, Va. is now in operation. Production started in the spring of 1956 and the first shipment of elements was made in July. Orders are being received for fuel elements for many different applications. The Atomic Energy Critical Experiment Laboratory at Lynchburg will enable us to make many tests of reactors and components.

The background of techniques, knowledge and experience previously developed in the Company in its other divisions is proving of great value in enabling us to assume a leading position in atomic energy.

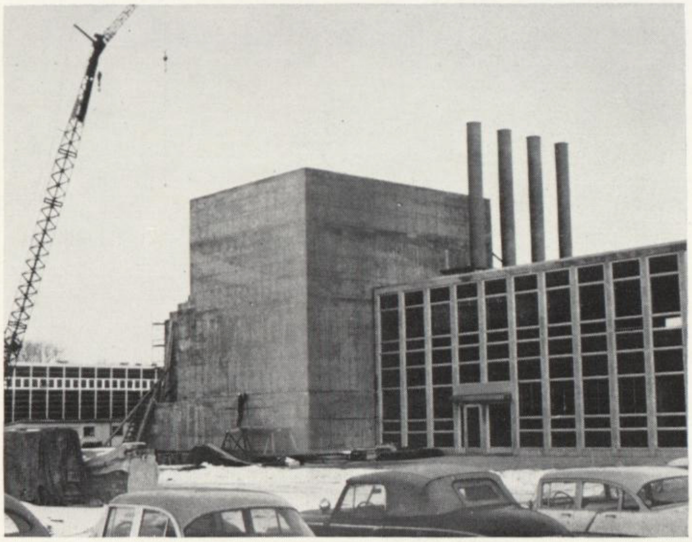
TUBULAR PRODUCTS DIVISION

A continued increase in production resulted in a very satisfactory year for the Tubular Products Division. Progress was achieved in many areas of operations, sales and related activities.

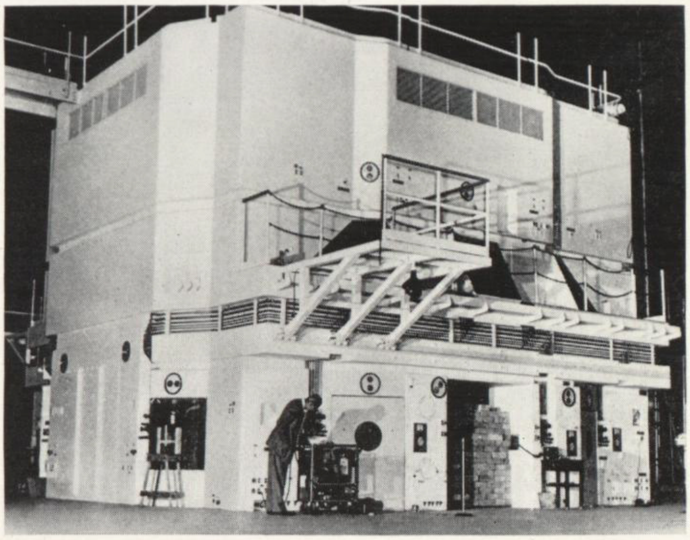
The scope of products as well as their application was broadened. Our position in the field of welding fittings has been expanded and this trend is expected to continue. This product is produced at the Milwaukee, Wisconsin plant. Additional applications for alloy tubing were found in both the pressure and mechanical fields. Pressure tubing applications have increased particularly in atomic energy work.



The Atomic Energy Critical Experiment Laboratory at Lynchburg, Virginia, enables B&W scientists to obtain data essential for design, construction and operation of full scale reactors.



There is a growing demand for atomic research reactors both here and abroad. The Ford Nuclear Reactor at the University of Michigan, designed and built by B&W, was completed late in 1956.



Materials testing reactor at Arco, Idaho for which B&W produced the elements for a complete atomic fuel reloading.

During the year, advancements continued in the production process of extruded tubing and shapes utilizing such metals as zirconium, titanium, molybdenum and high alloys of steel. Considerable experimental work has been undertaken and much progress has been made in developing products for special requirements for the atomic energy and jet engine fields.

Improvement programs are being carried on at the Division's plants in Alliance, Ohio, Beaver Falls, Pa., and Milwaukee, Wis. These are progressing to a satisfactory conclusion and will result in a more efficient operation and a higher quality product. The latter is becoming more and more a requirement for tubing because of the many complex problems in connection with the varied end uses.

REFRACTORIES DIVISION

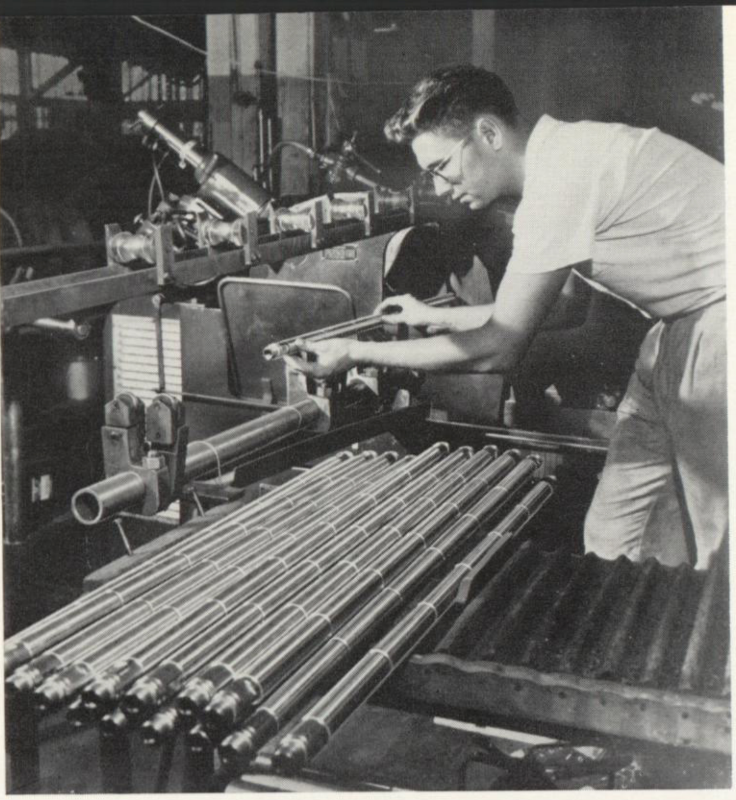
The Refractories Division benefits both when industry is expanding and when it is operating at a high level of capacity. Since both of these circumstances were present in 1956, orders received and shipments were each very heavy. To meet this demand steps were taken to increase the productive facilities of the Division.

The new facilities now in operation or shortly to be completed include another tunnel kiln for making insulating firebrick, two new periodic kilns for production of heavy firebrick and silicon carbide shapes and the replacement of the cement unit with a modern unit which, with its automatic features, will increase capacity and reduce costs.

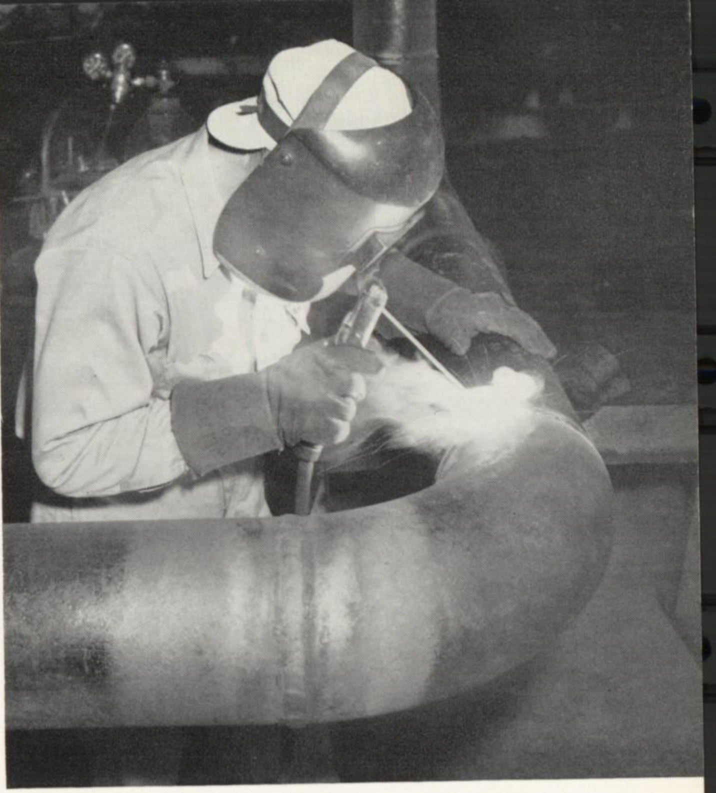
RESEARCH AND DEVELOPMENT DIVISION

Research activities during the year involved development along many lines.

Considerable effort has been devoted to adapting our steam generating equipment to changing fuel availability. Extensive testing of fluid char, a new type of coke residue resulting from the separation of oil and gas from coal was carried out, and the Company has sold a large Cyclone Furnace-fired boiler to burn this new fuel. Further changes in fuel availability

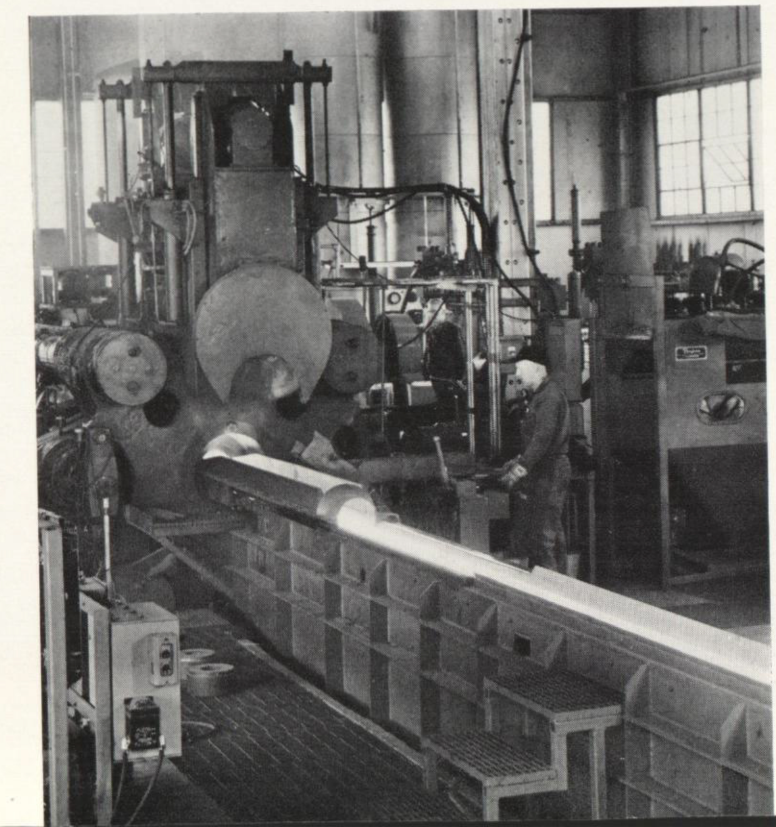


B&W mechanical tubing is widely used to simplify production of many machinery components requiring round, hollow parts, such as ball bearing races. Here, B&W seamless alloy steel mechanical tubing is being fabricated into parts for a deep well reciprocating pump.



B&W alloy welding fittings and flanges help speed construction of piping systems such as in this pipe line where resistance to heat and corrosion are important requirements.

Production of tubing by the extrusion process is an established production method at the Beaver Falls Plant.



Many industrial processes using very high pressures need tubing made to exacting standards. The B&W seamiess tubing in this synthesis ammonia cooler will be tested at 15,000 pounds per square inch.

will undoubtedly increase the supply and change the characteristics of this type of fuel, and continued development is contemplated to provide the most economical method for using it in our equipment.

New refining methods for oil are producing solid petroleum coke residues as by-products and extensive testing was conducted to determine optimum arrangements of combustion equipment for burning these residues.

As nuclear fuels are added to the sources of energy, research on uranium and thorium in the many forms in which they can be used has greatly expanded. The diversity of problems in the reactor and the entire nuclear power plant has engaged the effort of all sections of the Research Center.

Significant progress has been made in the development of nuclear fuel element fabrication. Studies to permit the use of more economical and less critical structural materials have accumulated much needed information. The continuation of this work will hasten the advent of competitive nuclear power.

Limitations imposed by fuels and fuel-ash chemistry have brought about a gradual change in our alloy development program from emphasis on strength at high temperature to corrosion resistance. High-temperature corrosion with fossil fuels is encountered increasingly as a limitation on boiler efficiency. Also, utilization of nuclear fuels will involve many new problems in corrosion resistance.

BAILEY METER COMPANY

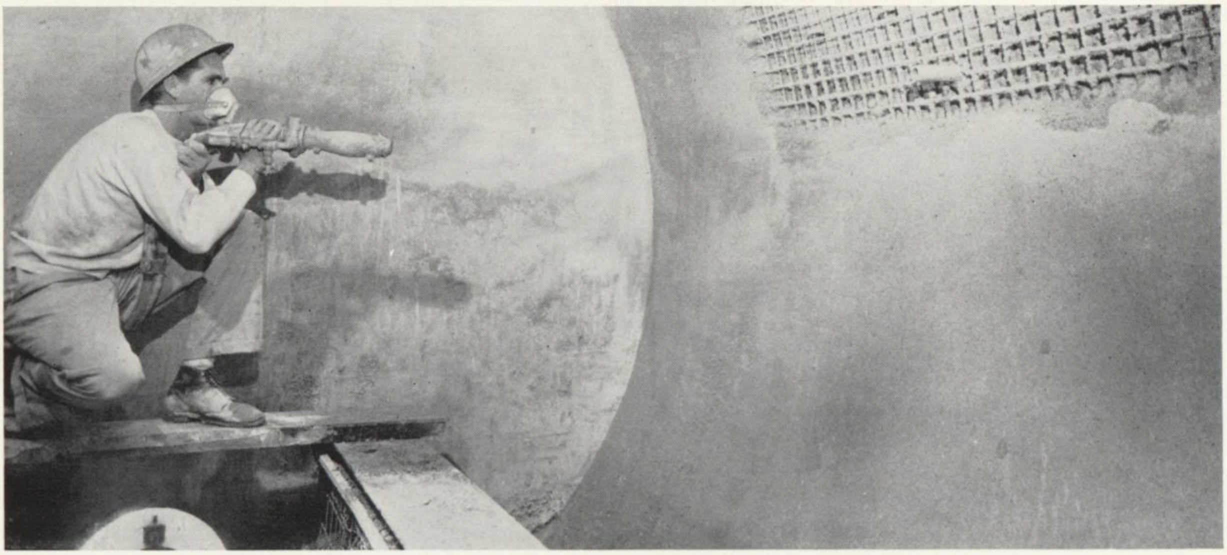
Increased spending in 1956 by electric utilities has resulted in a substantial growth in the activities of Bailey Meter Company.

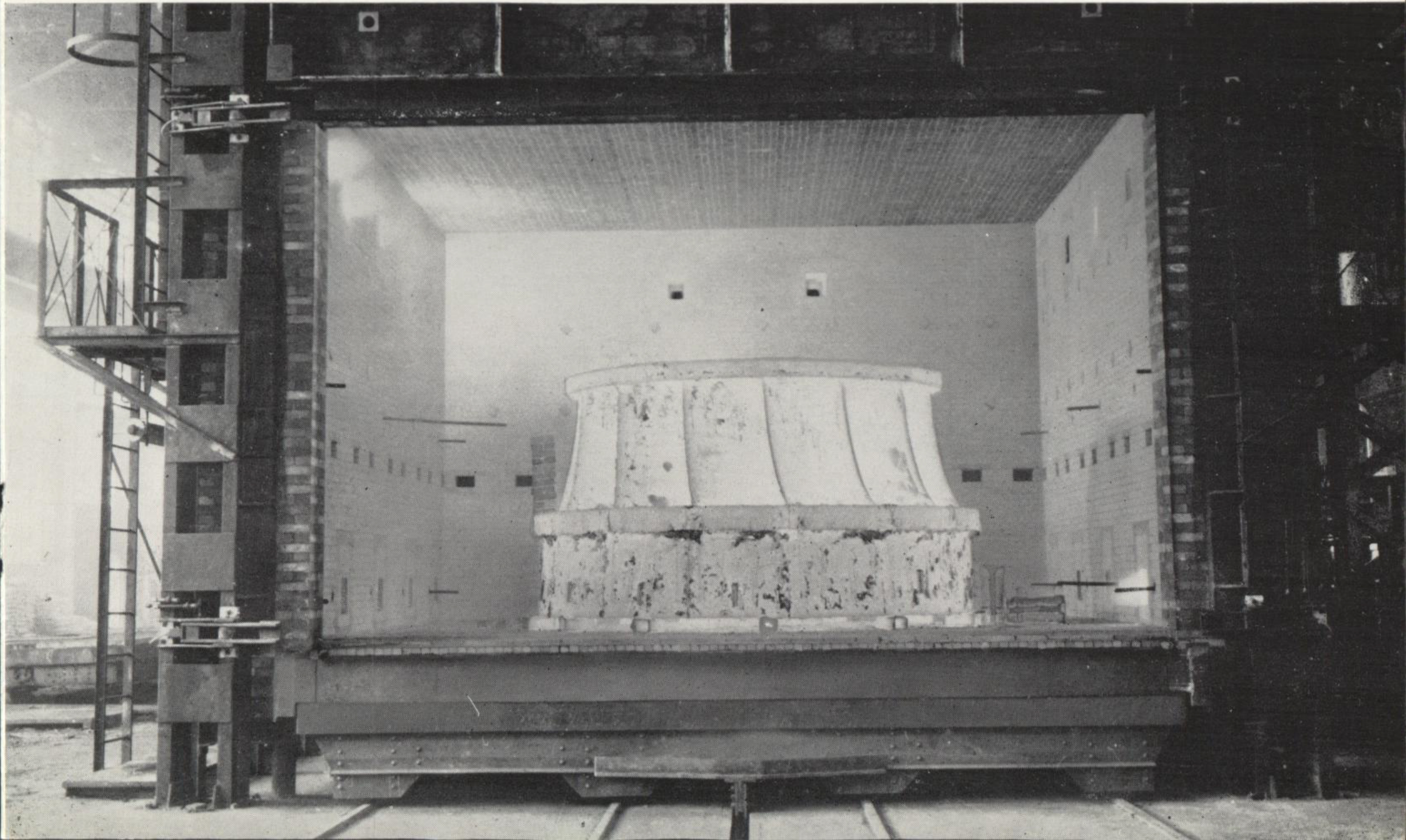
New manufacturing facilities at Wickliffe, Ohio, which began operating in December 1955, have enabled the Company to increase production materially and have allowed the Company to extend its field of service to several important new markets including iron and steel, pulp and paper, cement and non-ferrous metals, and water and waste treatment. The high level of orders received in 1956 will re-

The properties of B&W Insulating Firebrick create a considerable demand for them. Large heating furnaces in the metal, chemical and petroleum processing industries use many thousands of these bricks to line their walls.

Another product of B&W Refractories research is Kaowool—a light ceramic fiber similar to glasswool but capable of withstanding much higher temperatures. The market for this product is as yet limited. However, as temperatures in industry continue upward, many applications are being found, such as in insulating piping for this atomic energy test system.

Refractory concretes are coming more and more into use as a means of speeding up furnace construction and repair. The Refractories Division pioneered the introduction of this type high-temperature refractory and has developed techniques of applying it with cement guns, to reduce costs further.





quire additional capacity which has been authorized and will be completed about the middle of 1957.

Acquisition in 1956 of the assets and know-how of Metrotype Corporation, a company with extensive experience in digital type data logging equipment, will enable the Company to increase its potential in the markets now served and to still further extend the new markets for its products.

Broad acceptance of instruments and automatic control systems in every branch of industry portends a rapidly expanding market for the Bailey Meter Company.

DIAMOND POWER SPECIALTY CORPORATION

Diamond's principal products have to do with removing ashes and slag from steam boilers. It also has an Electronics Department largely engaged in the production of industrial television equipment. In addition, it makes other appliances for boilers, principally the "Multi-Port" Bi-Color Water Gauge.

In 1956 orders received from all types of boiler users reached a record peak. The Company's automatic sequentially controlled soot-blowers are widely used on the large steam generating units now being installed in electric generating plants throughout the country. The Company has introduced a shot cleaning system for application especially to recovery units in paper mills and for cleaning economizers and air heaters in public utility units.

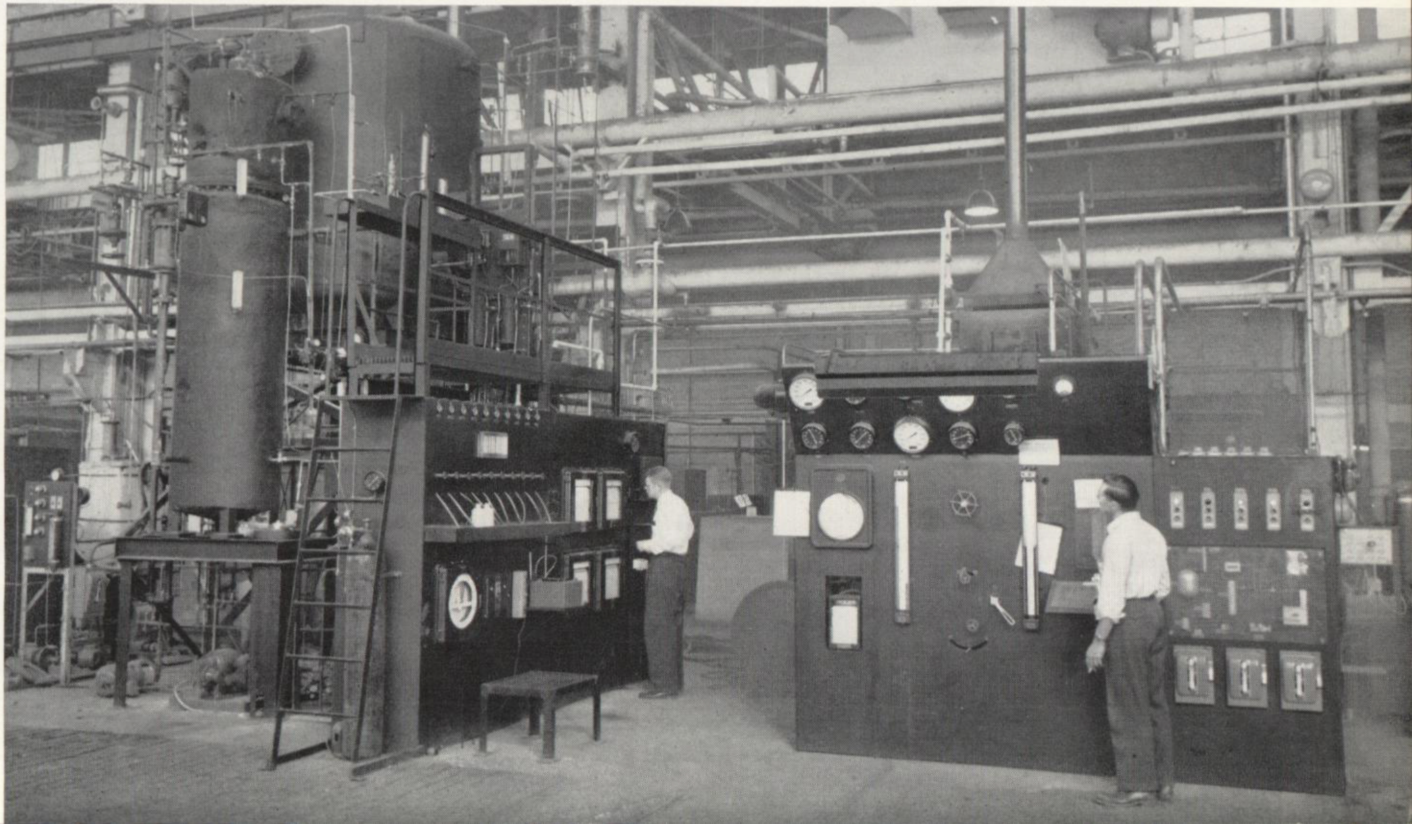
In electronics, the Company's interest is expanding from the field of viewing boiler water level at a distance into the field of observing underwater objects in marine salvage work, and for control of entrance gates and transmission of signatures in larger banks. This industrial television system is being further developed with the intention of increasing the diversity of the Company's products, but it still accounts for a relatively small part of its business.

It appears that the demand for Diamond's products will continue at a satisfactory level for the immediate future.

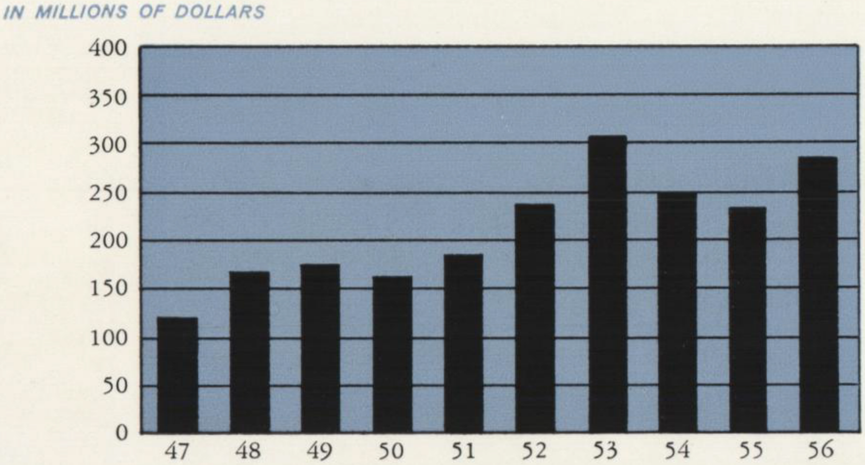
The search for improved alloys that are economical and will withstand high temperatures, pressures, and corrosion, is being pressed intensively at B&W's Creep Laboratory, one of the largest of its kind. Here, a new alloy is being poured into a mold to produce an ingot for testing.

"Automation" and "electronic computers" are much in the news these days and our Company is using them in a number of ways. For example, the parent company is working with Bailey Meter Company to develop an electronic system that in a few hours will record, analyze and report performance data of boiler operation, saving hundreds of manhours now expended by technical personnel.

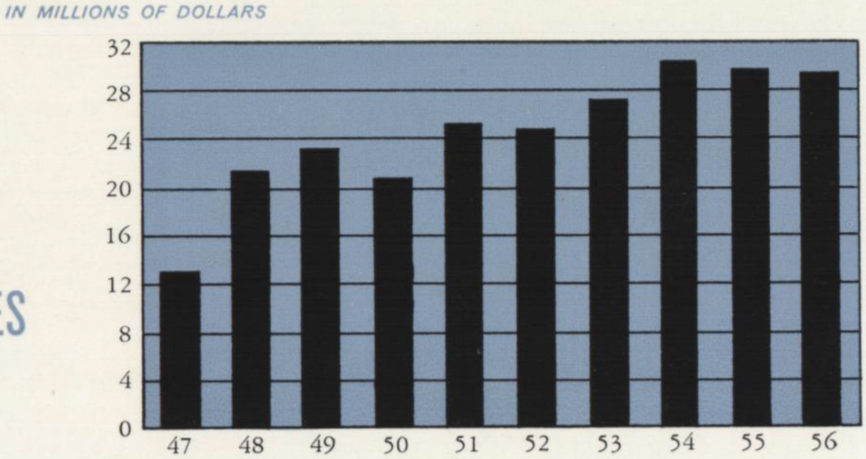
Typical of the large-scale apparatus needed for research is the supercritical pressure test unit at the B&W Research Center. Considerable data necessary for the design and operation of our Universal Pressure Steam Generator were developed in tests on this pilot plant.



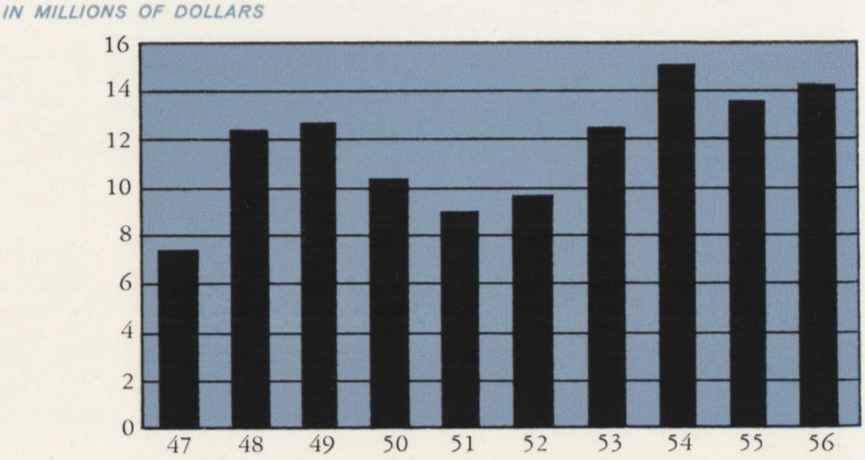
SALES
(SHIPMENTS)



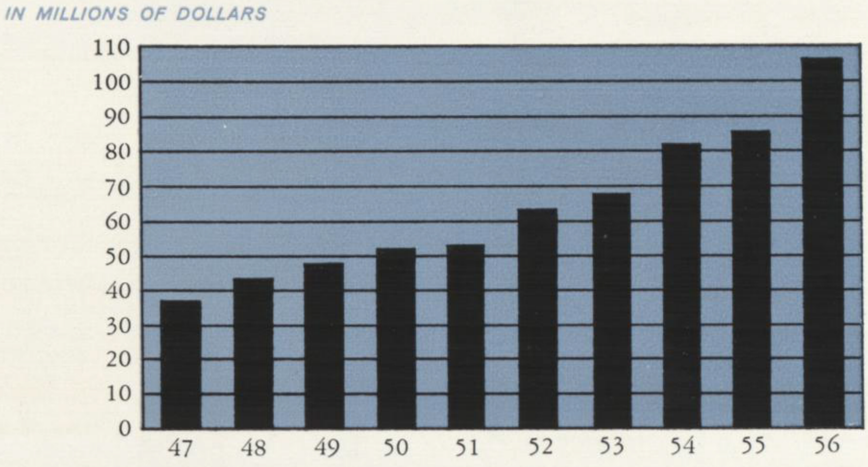
OPERATING PROFIT BEFORE INCOME TAXES



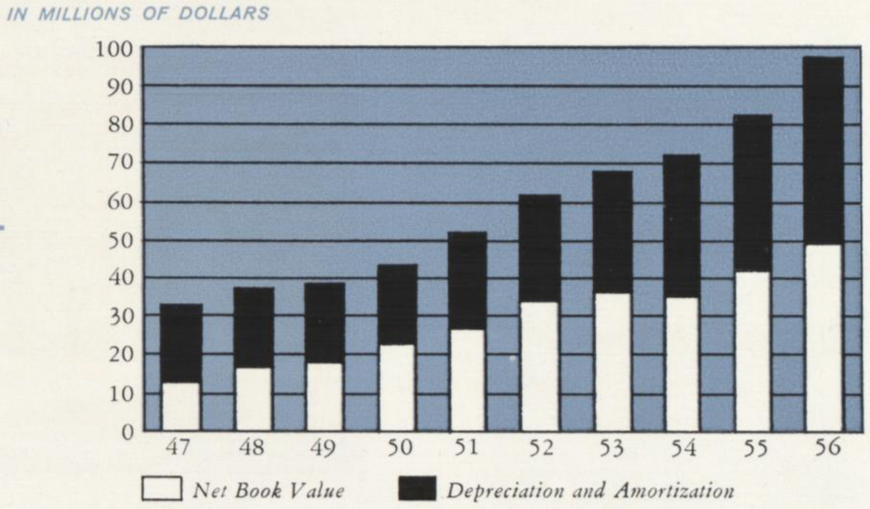
NET INCOME



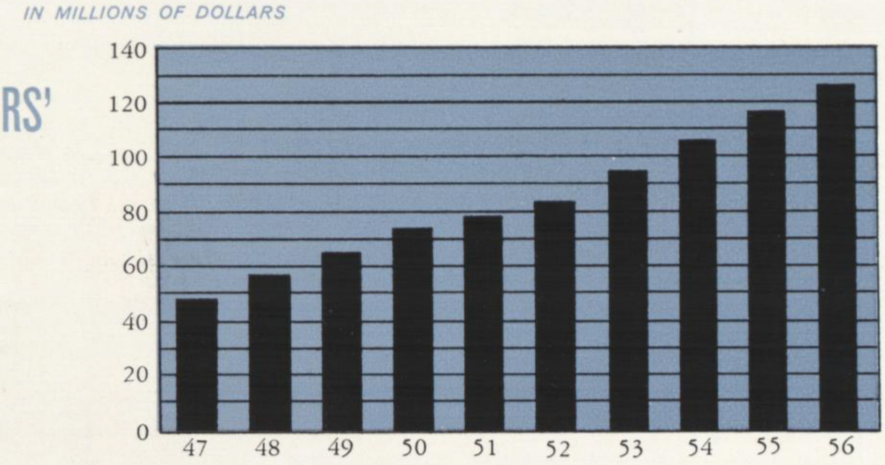
WORKING CAPITAL



PROPERTY, PLANT & EQUIPMENT



STOCKHOLDERS' EQUITY

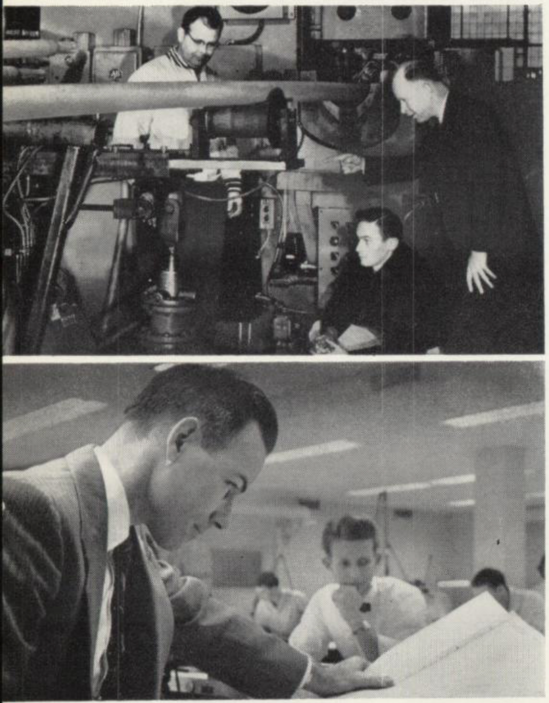


ENGINEERS play an important part in B&W's activities. Training begins for an engineering graduate from the moment he comes to work for B&W. His training, naturally, is most intensive during his first few months with us, but it continues all through his life, as his responsibilities grow and our expanding activities produce the need for higher levels of scientific and engineering knowledge.

Young engineering graduates are given an intensive orientation course so that they will be able to understand the entire scope of B&W's operations. This includes plant and job-site visits as well as classroom work. (TOP) *Metallurgical tests used in tube manufacturing are explained to a group of new B&W engineers.* (BOTTOM) *B&W trainees hear of rigid test procedures for high temperature refractory concretes.*

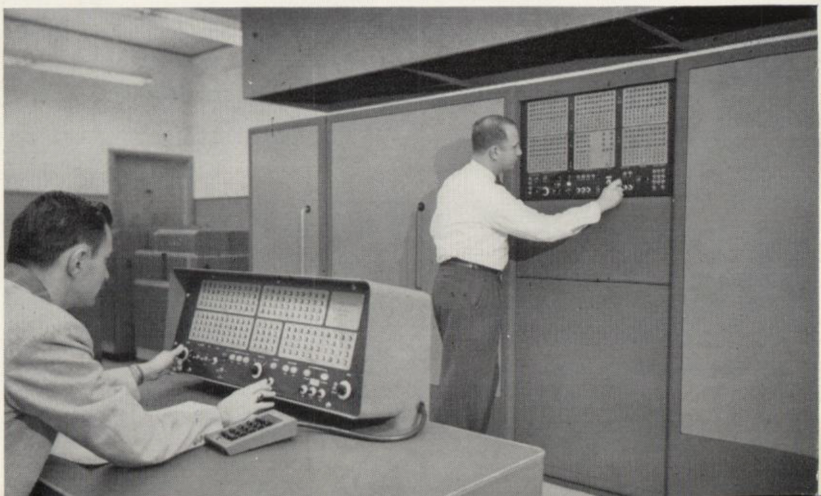
New engineers, after training, have an opportunity to work directly with experienced engineers on the job. Here a group is examining recently extruded tubing at the Beaver Falls Plant.

B&W's engineers and scientists are regarded as leading world specialists in their various fields of endeavor. These men welcome the opportunity to instruct younger engineers and transmit to them the storehouse of B&W "knowledge" which cannot be found in texts or reference books.



Education does not stop when the training program is completed. There are many on-the-job development programs. In addition, a very large number of B&W employees are attending school after work, seeking professional and advanced degrees. The Company encourages these activities and shares the cost. (TOP) *Engineers examining tube handling equipment for hydraulic straightening press.* (BOTTOM) *Many young engineers are starting new careers with B&W in atomic energy at Lynchburg.*

A number of our engineers have developed the highly specialized knowledge needed to program electronic computers, which are being used in many phases of our operations to simplify and speed work. These devices do not eliminate or replace engineers. Rather, by performing rapidly the many detailed calculations previously requiring extensive engineering man-hours, they are releasing our engineers for more creative tasks.



THE BABCOCK & WILCOX COMPANY

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS FOR THE CALENDAR YEAR 1956

(with comparative figures for the year 1955)

	1956	1955
Sales (shipments) on percentage of completion method for long term contracts	$281,485,168	$233,291,460
Costs and expenses		
Materials, payrolls, services and taxes other than U. S. and Canadian taxes on income	244,890,056	197,006,074
Depreciation of plants and equipment (includes amortization $2,784,445 in 1956 and $3,086,166 in 1955)	6,699,297	6,249,695
	251,589,353	203,255,769
	29,895,815	30,035,691
Income from investments	562,711	515,781
Interest expense (deduct)	(854,046)	(353,995)
	29,604,480	30,197,477
U. S. and Canadian taxes on income	15,320,000	16,520,000
	14,284,480	13,677,477
Income applicable to minority interests (deduct)	(203,499)	(190,760)
Income for the year	14,080,981	13,486,717
Dividends declared		
Cash	5,145,654	4,900,623
Stock dividends (4% or 205,826 shares in 1956 and 5% or 81,677 shares in 1955 at $42.56 and $91.46 per share respectively)	8,760,000	7,470,000
	13,905,654	12,370,623
Remainder added to retained earnings	175,327	1,116,094
Retained earnings at beginning of year	70,984,593	67,618,499
Transfer from pension reserve (no longer required following establishment of funded plans)		2,250,000
Transferred to capital stock upon change from no par value to par value of $9.00 per share (deduct)	(80,886)	
Retained earnings at end of year (see note)	$ 71,079,034	$ 70,984,593

NOTE: The payment or declaration of cash dividends on the Company's stock is restricted under the provisions of the Note Agreements covering $32,000,000 principal amount of promissory notes dated June 1, 1956. Pursuant to such Note Agreements, retained earnings in the sum of $18,565,000 were unrestricted at December 31, 1956.

THE BABCOCK & WILCOX COMPANY

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION AT DECEMBER 31, 1956

(with comparative figures at December 31, 1955)

			1956	1955
CURRENT ASSETS				
Cash			$ 14,578,011	$ 14,183,980
U. S. Government securities, at cost			1,998,719	8,805,094
Accounts receivable			39,393,621	34,198,219
Unbilled shipments and installations, at contract prices			10,161,310	10,925,207
Inventories, at lower of cost or market			91,486,608	56,996,476
Advance payments on contracts (deduct)			(9,427,240)	(2,232,457)
TOTAL CURRENT ASSETS			148,191,029	122,876,519
CURRENT LIABILITIES				
Accounts payable			12,269,853	9,394,594
Accrued liabilities			12,185,674	9,044,732
Cash dividends payable			1,286,414	1,225,156
Provision for additional costs on contracts			1,762,236	2,802,647
U. S. and Canadian income taxes			13,866,974	15,109,311
TOTAL CURRENT LIABILITIES			41,371,151	37,576,440
WORKING CAPITAL			106,819,878	85,300,079
INVESTMENTS, at cost			1,600,196	1,600,196
PROPERTY, PLANT AND EQUIPMENT (schedule attached)			49,830,350	40,657,196
PREPAID EXPENSES AND OTHER ASSETS			1,057,813	748,100
PATENTS			1	1
WORKING CAPITAL AND OTHER ASSETS			159,308,238	128,305,572
DEDUCT				
Fifteen-year 3¼% notes due June 1, 1967				10,000,000
Eighteen-year notes due June 1, 1974—$23,000,000 3⅞%, $9,000,000 3⅝% (requiring certain annual prepayments commencing in 1961)			32,000,000	
Minority interests in subsidiary company			1,158,318	1,090,979
NET ASSETS			$126,149,920	$117,214,593
REPRESENTED BY				
Capital Stock	*Dec. 31, 1956*	*Dec. 31, 1955*		
Par value per share	$9.00	No par value		
Shares authorized	9,000,000	3,000,000		
Shares issued (including 5% stock dividend paid January 1956)	5,145,654	1,715,218	46,310,886	46,230,000
4% stock dividend paid January 1957 (including $6,907,566 excess over par value—capital surplus)	205,826		8,760,000	
Retained earnings (see note Page 23)			71,079,034	70,984,593
			$126,149,920	$117,214,593

THE BABCOCK & WILCOX COMPANY

CONSOLIDATED STATEMENT OF PROPERTY, PLANT AND EQUIPMENT

(with comparative figures at December 31, 1955)

	1956	1955
COST		
At beginning of year	$82,215,544	$70,116,721
Expenditures during year	15,921,306	12,641,142
Retired or sold during year	(825,096)	(542,319)
At end of year	97,311,754	82,215,544
DEPRECIATION AND AMORTIZATION		
At beginning of year	41,558,348	35,827,693
Charged to operations during year	6,699,297	6,249,695
Accumulated on property retired or sold during year	(776,241)	(519,040)
At end of year	47,481,404	41,558,348
Net book value	$49,830,350	$40,657,196

OPINION OF INDEPENDENT PUBLIC ACCOUNTANTS

TO THE BOARD OF DIRECTORS OF
THE BABCOCK & WILCOX COMPANY:

In our opinion, the accompanying statements present fairly the consolidated financial position of The Babcock & Wilcox Company and its subsidiaries at December 31, 1956 and the results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.

New York, N. Y.
February 20, 1957

THE BABCOCK & WILCOX COMPANY

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION AT DECEMBER 31

(in thousands of dollars)

	1956	1955	1954
Current Assets			
Cash	$ 14,578	$ 14,184	$ 20,121
U. S. Government securities	1,999	8,805	7,268
Accounts receivable	39,394	34,198	39,277
Unbilled shipments and installations	10,161	10,925	17,758
Inventories	91,486	56,996	40,975
Advance payments on contracts (deduct)	(9,427)	(2,232)	(2,649)
Total Current Assets	148,191	122,876	122,750
Current Liabilities			
Notes payable to banks			
Accounts payable	12,270	9,394	11,413
Accrued liabilities	12,186	9,045	9,002
Cash dividends payable	1,286	1,225	778
Provision for additional costs on contracts	1,762	2,803	4,000
U. S. and Canadian income taxes	13,867	15,109	16,588
Total Current Liabilities	41,371	37,576	41,781
Working Capital	106,820	85,300	80,969
Investments	1,600	1,600	1,603
Pension Reserve Investments			2,250
Property, Plant and Equipment	49,830	40,657	34,289
Prepaid Expenses and Other Assets	1,058	748	566
Working Capital and Other Assets	159,308	128,305	119,677
Deduct			
Long term debt	32,000	10,000	10,000
Reserve for pensions			2,250
Minority interests in subsidiary companies	1,158	1,091	1,049
Net Assets	$126,150	$117,214	$106,378
Represented by			
Capital	$ 46,311	$ 38,760	$ 34,260
Stock dividends paid January following year (1956 includes $6,907,566 capital surplus)	8,760	7,470	4,500
Retained earnings	71,079	70,984	67,618
	$126,150	$117,214	$106,378

CONSOLIDATED STATEMENT OF PROPERTY, PLANT AND EQUIPMENT

(in thousands of dollars)

	1956	1955	1954
Cost			
At beginning of year	$ 82,215	$ 70,117	$ 67,177
Expenditures during year	15,921	12,640	3,792
Retired or sold during year	(825)	(542)	(852)
At end of year	97,311	82,215	70,117
Depreciation and Amortization			
At beginning of year	41,558	35,828	31,361
Charged to operations during year	6,699	6,249	5,234
Accumulated on property retired or sold during year	(776)	(519)	(767)
At end of year	47,481	41,558	35,828
Net Book Value	$ 49,830	$ 40,657	$ 34,289

PREVIOUS YEARS

1953	1952	1951	1950	1949	1948	1947
$ 9,062	$ 6,785	$ 8,324	$ 9,479	$15,336	$ 6,428	$ 7,003
1,550	1,950	1,595	8,900	2,186	2,081	5,131
43,886	42,560	32,666	24,913	27,253	24,134	17,178
20,638	17,597	8,528	12,934	10,889	12,746	8,159
56,902	56,768	49,904	25,694	23,893	30,011	26,401
(2,069)	(13,887)	(9,381)	(3,441)	(3,544)	(6,109)	(8,590)
129,969	111,773	91,636	78,479	76,013	69,291	55,282
20,500	10,000	3,000				
12,833	11,240	9,197	6,182	7,563	8,540	5,976
10,922	9,085	7,675	5,949	4,813	5,115	4,206
741	706	706	706	2,822	705	672
2,500	2,500	2,500	2,500	2,500	2,500	2,500
15,560	14,770	16,292	11,008	10,224	9,872	6,400
63,056	48,301	39,370	26,345	27,922	26,732	19,754
66,913	63,472	52,266	52,134	48,091	42,559	35,528
2,177	2,194	2,202	2,201	2,227	2,216	2,238
2,250	2,250	2,200	2,200	1,700	1,050	500
35,816	32,748	26,364	20,140	17,890	15,220	12,663
397	505	601	378	268	229	207
107,553	101,169	83,633	77,053	70,176	61,274	51,136
10,000	10,000					
2,250	2,250	2,200	2,200	1,700	1,050	500
1,025	3,739	3,240	2,879	2,587	2,009	1,529
$ 94,278	$ 85,180	$78,193	$71,974	$65,889	$58,215	$49,107
$ 31,450	$ 29,097	$29,097	$29,097	$29,097	$29,097	$27,039
2,810	2,353					
60,018	53,730	49,096	42,877	36,792	29,118	22,068
$ 94,278	$ 85,180	$78,193	$71,974	$65,889	$58,215	$49,107
$ 60,183	$ 50,893	$42,889	$39,574	$36,222	$33,326	$28,914
7,493	9,684	8,455	4,030	4,222	3,816	5,374
(499)	(394)	(451)	(715)	(870)	(920)	(962)
67,177	60,183	50,893	42,889	39,574	36,222	33,326
27,435	24,529	22,749	21,684	21,002	20,663	20,574
4,410	3,289	2,078	1,747	1,455	1,259	1,031
(484)	(383)	(298)	(682)	(773)	(920)	(942)
31,361	27,435	24,529	22,749	21,684	21,002	20,663
$ 35,816	$ 32,748	$26,364	$20,140	$17,890	$15,220	$12,663

NOTE: *1952 and prior figures have been restated to include subsidiaries not consolidated in the published reports for those years.*

THE BABCOCK & WILCOX COMPANY

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

(in thousands of dollars)

	1956	1955	1954
Sales (shipments)	$281,485	$233,291	$250,471
Costs and Expenses			
Materials, payrolls, services and taxes other than federal taxes on income	244,890	197,006	214,539
Depreciation and amortization	6,699	6,249	5,234
	251,589	203,255	219,773
	29,896	30,036	30,698
Income from investments	562	515	737
Interest expense (deduct)	(854)	(354)	(580)
	29,604	30,197	30,855
U. S. and Canadian taxes on income	15,320	16,520	15,470
	14,284	13,677	15,385
Income applicable to minority interests (deduct)	(203)	(190)	(173)
Provision for pension reserve (deduct)			
Income for the year	14,081	13,487	15,212
Dividends Declared			
Cash	5,146	4,901	3,112
Stock—4% in 1956, 5% in previous years	8,760	7,470	4,500
	13,906	12,371	7,612
Remainder added to retained earnings	175	1,116	7,600
Retained earnings at beginning of year	70,984	67,618	60,018
Transfer to capital stock	(80)		
Transfer from pension reserve		2,250	
Retained earnings at end of year	$ 71,079	$ 70,984	$ 67,618

STATISTICS

	1956	1955	1954
Orders received—thousands of dollars	$495,257	$317,283	$192,199
Unfilled orders—thousands of dollars	$427,228	$213,456	$129,464
Shares issued during year: Stock dividend	81,677	77,787	74,083
Stock split	3,430,436		
Shares outstanding end of year	5,145,654	1,633,541	1,555,754
Per share outstanding December 31, 1956			
Income for year	$ 2.74	$ 2.62	$ 2.96
Cash dividends declared	1.00	.95	.60
Stockholders' equity	24.52	22.78	20.67
Income from operations—% of sales	10.6%	12.9%	12.2%
Income for year—% Net worth first of year	12.0%	12.7%	16.1%

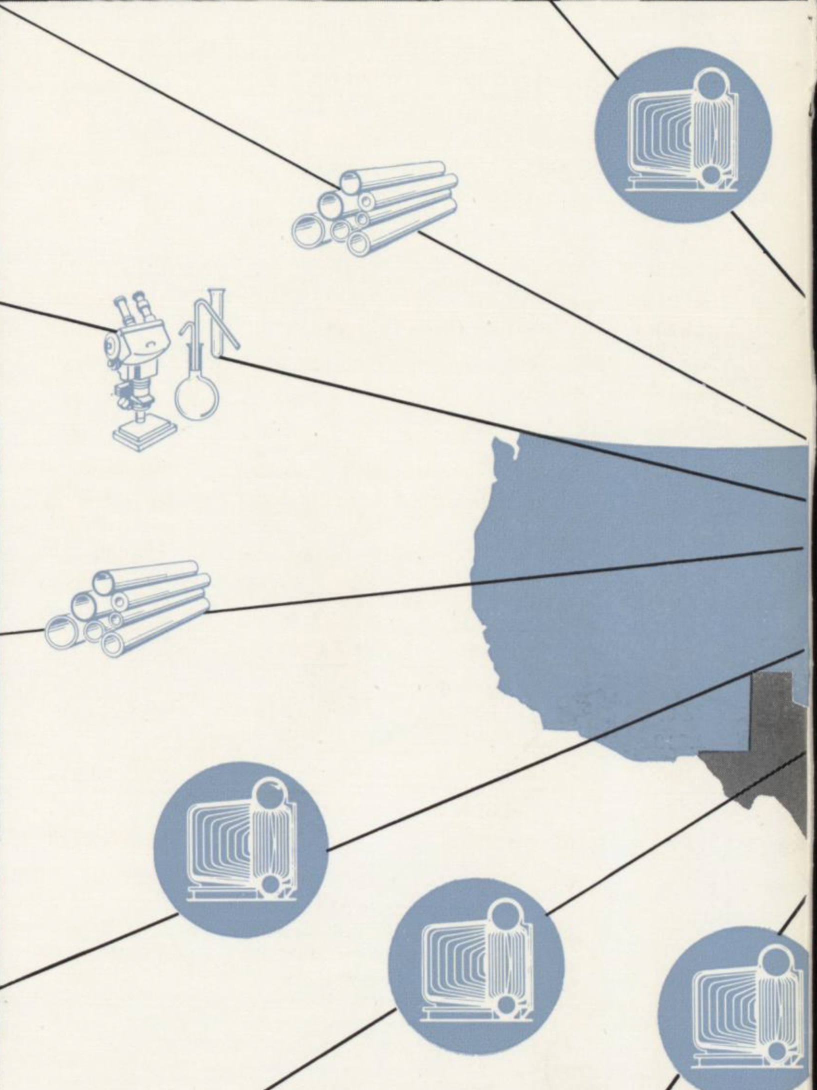
PREVIOUS YEARS

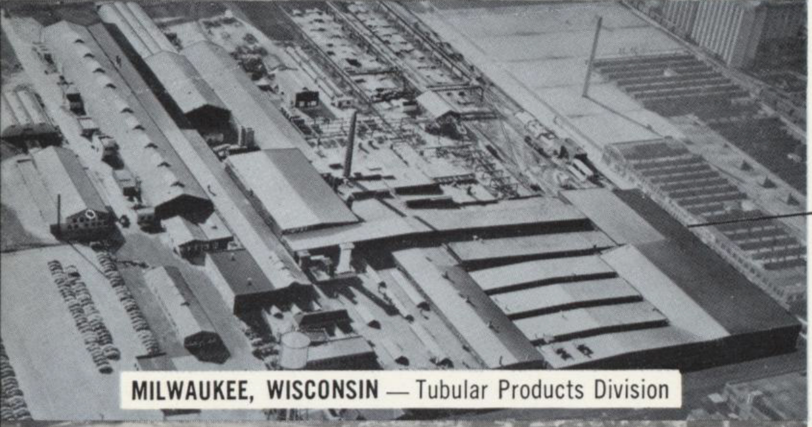
1953	1952	1951	1950	1949	1948	1947
$305,746	$241,267	$182,025	$154,854	$170,650	$163,516	$116,403
273,701	213,510	155,282	132,010	145,874	140,268	102,099
4,410	3,289	2,078	1,747	1,455	1,259	1,031
278,111	216,799	157,360	133,757	147,329	141,527	103,130
27,635	24,468	24,665	21,097	23,321	21,989	13,273
206	436	530	402	341	528	410
(891)	(397)	(5)				
26,950	24,507	25,190	21,499	23,662	22,517	13,683
14,190	13,750	15,598	9,992	9,438	8,768	5,272
12,760	10,757	9,592	11,507	14,224	13,749	8,411
(699)	(898)	(551)	(689)	(963)	(698)	(508)
	(50)		(500)	(650)	(550)	(500)
12,061	9,809	9,041	10,318	12,611	12,501	7,403
2,963	2,822	2,822	4,233	4,937	3,393	3,024
2,810	2,353				2,058	
5,773	5,175	2,822	4,233	4,937	5,451	3,024
6,288	4,634	6,219	6,085	7,674	7,050	4,379
53,730	49,096	42,877	36,792	29,118	22,068	27,329
						(9,640)
$ 60,018	$ 53,730	$ 49,096	$ 42,877	$ 36,792	$ 29,118	$ 22,068
$157,255	$227,563	$319,534	$257,957	$109,019	$171,798	$157,970
$187,736	$336,227	$349,931	$212,422	$109,319	$170,950	$162,668
70,555					33,588	
			705,558			
1,481,671	1,411,116	1,411,116	1,411,116	705,558	705,558	671,970
$ 2.34	$ 1.91	$ 1.76	$ 2.01	$ 2.45	$ 2.43	$ 1.44
.58	.55	.55	.82	.96	.66	.59
18.32	16.55	15.20	13.99	12.80	11.31	9.54
9.0%	10.1%	13.6%	13.6%	13.7%	13.4%	11.4%
14.2%	12.5%	12.6%	15.7%	21.7%	25.5%	16.6%

ALLIANCE, OHIO — Tubular Products Division

ALLIANCE, OHIO — Boiler Division

ALLIANCE, OHIO — Research Center

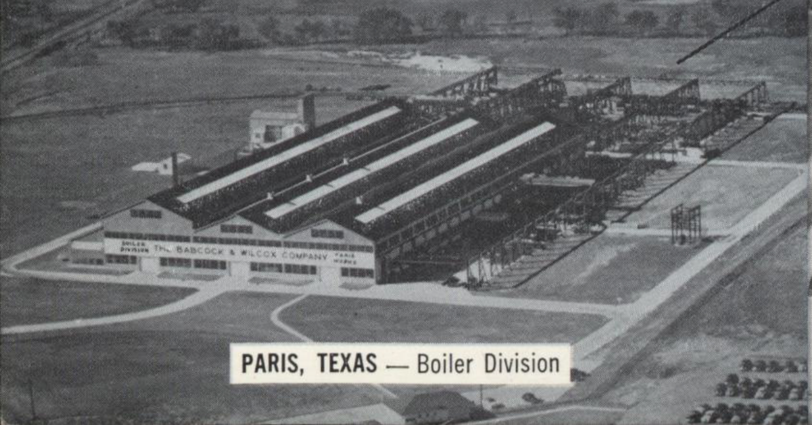




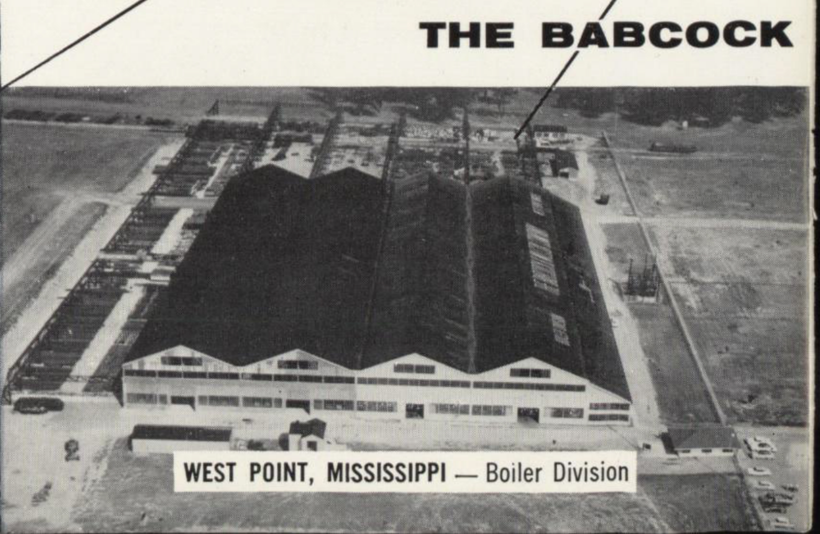
MILWAUKEE, WISCONSIN — Tubular Products Division

BARBERTON, OHIO — Boiler Division

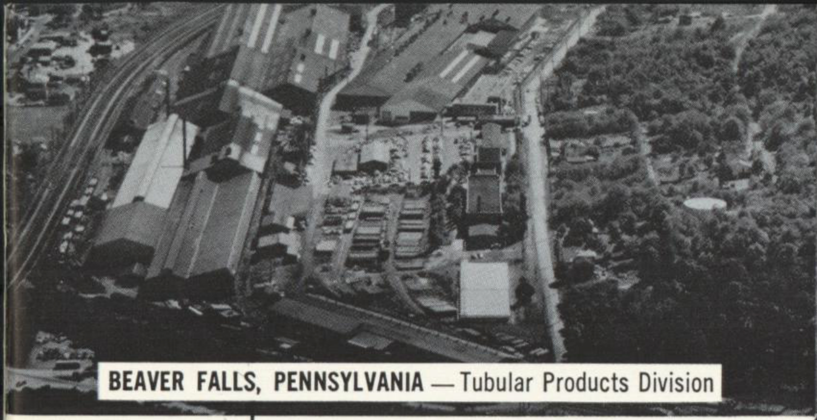
FACILITIES OF THE BABCOCK



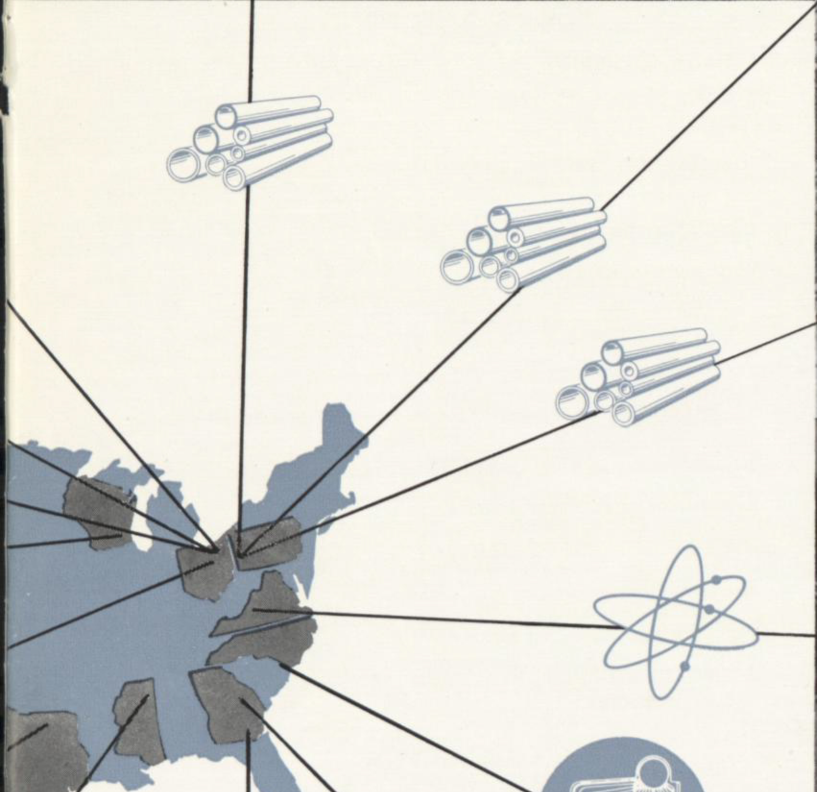
PARIS, TEXAS — Boiler Division



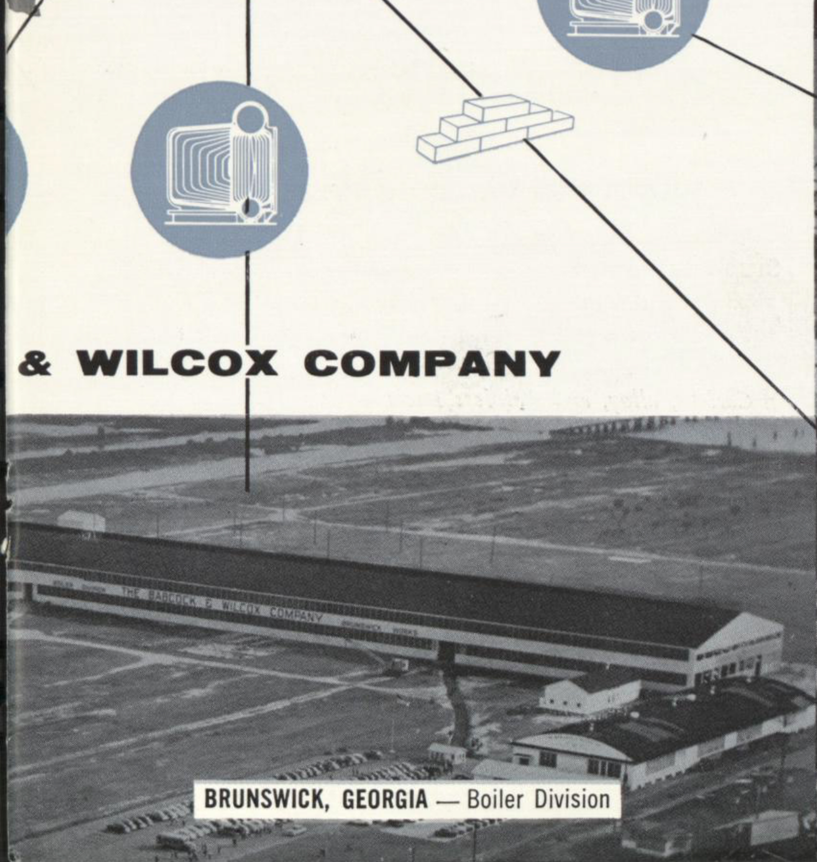
WEST POINT, MISSISSIPPI — Boiler Division


BEAVER FALLS, PENNSYLVANIA — Tubular Products Division

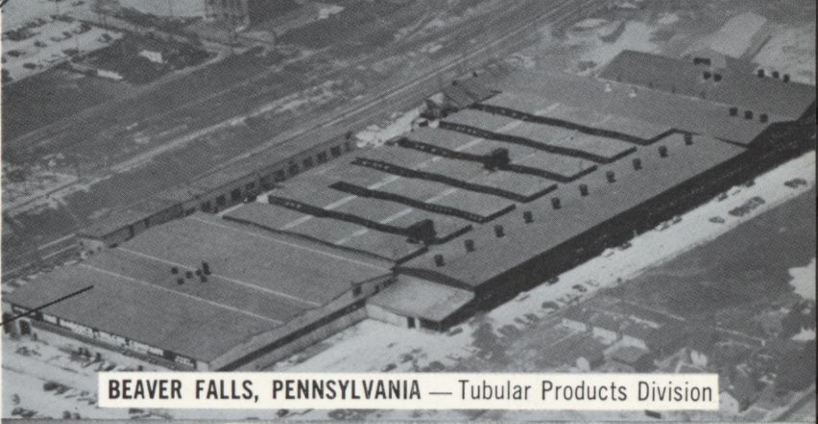
BEAVER FALLS, PENNSYLVANIA — Tubular Products Division

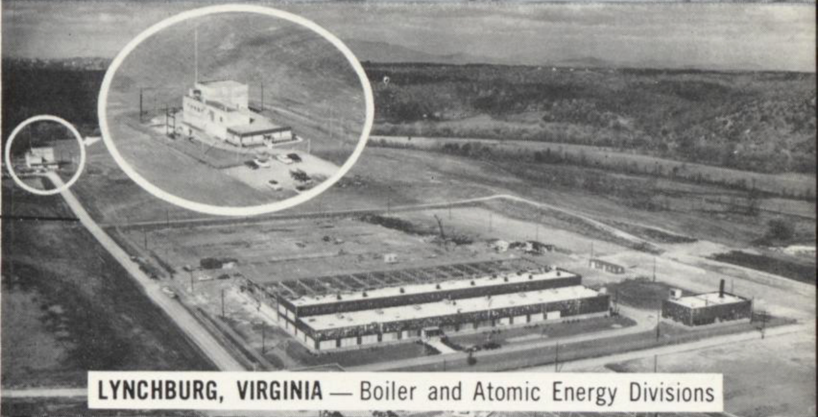


& WILCOX COMPANY



BRUNSWICK, GEORGIA — Boiler Division


BEAVER FALLS, PENNSYLVANIA — Tubular Products Division


LYNCHBURG, VIRGINIA — Boiler and Atomic Energy Divisions

WILMINGTON, NORTH CAROLINA — Boiler Division

AUGUSTA, GEORGIA — Refractories Division

PRODUCTS OF
THE BABCOCK & WILCOX COMPANY

BOILER DIVISION

Water-Tube Boilers
- For Public Utility Power Plants
- For Industrial Power and Process Plants
- For Heating Plants
- For Marine Service

Water-Cooled Furnaces
Superheaters
Attemperators
Economizers
Air Heaters
Pulverized-Coal Equipment
Jet-Ignition Stokers
Oil, Gas and Multi-Fuel Burners
Process Equipment
Recovery Process for the Pulp Industry
Pulverizers for Cement Materials, Rock Products and Ores
Alloy Castings

ATOMIC ENERGY DIVISION

Power Reactors
Nuclear Reactor Vessels and Internals
Nuclear Power Heat Exchangers
Research Reactors
Special Nuclear Test Equipment

REFRACTORIES DIVISION

Refractories for a Wide Range of Applications

Insulating Firebrick
Six grades for a wide range of temperature and service requirements

Special Firebrick
Allmul, 80 Firebrick, Junior Firebrick

Silicon Carbide
Special Shapes

Plastics; Mortars; Castables; Ramming Mixes; Calcines

TUBULAR PRODUCTS DIVISION

TUBES AND PIPE

Mechanical Tubing
Aircraft Tubing
Bearing Tubing
Dairy and Other Sanitary Tubing
Still Tubes
Boiler and Superheater Tubes
Condenser and Heat Exchanger Tubes

Types

Seamless Tubes—hot-finished, turned, cold-drawn, or roto-rocked
Welded Tubes—from hot-rolled or cold-rolled strip

Shapes

Round, square, rectangular, or special shapes

Grades

Carbon, alloy, and stainless steels

Fabrication

Upsetting, swaging, expanding, bending, safe-ending, and machining

EXTRUSIONS

Tubular Shapes
Solid Shapes

Grades

Standard and non-pierceable ferrous alloys, and non-ferrous materials such as Titanium, Molybdenum, Zirconium, etc.

SEAMLESS WELDING FITTINGS

Elbows Returns Reducers Tees Caps
Stub Ends Flanges Saddles Laterals
Bull Plugs Nipples Crosses

Grades

Carbon, alloy, and stainless steels

RESEARCH AND DEVELOPMENT

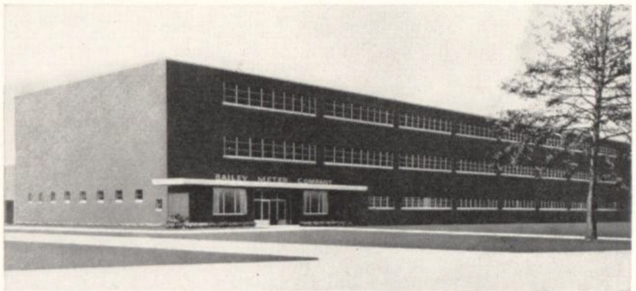
Research and Development in Combustion, Fluid Flow, Heat Transfer, Nuclear Energy and Materials, Leading to New and Improved Company Products.

FACILITIES & PRODUCTS OF BABCOCK & WILCOX SUBSIDIARY COMPANIES

BAILEY METER COMPANY

FACILITIES

CLEVELAND, OHIO



WICKLIFFE, OHIO

PRODUCTS

- Boiler Meters and Flow Meters
- Pyrometers
- Pressure and Liquid Level Instruments
- Analysis Instruments
- Regulating Valves
- Instrument and Control Panel Assemblies

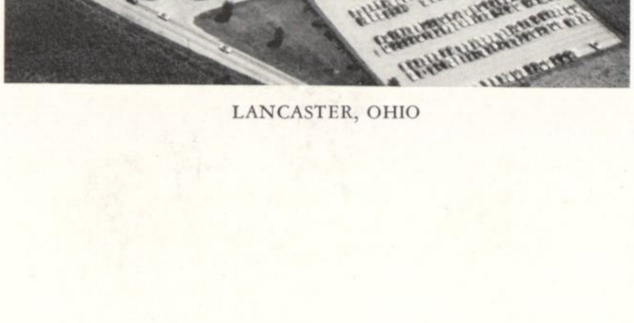
Automatic Control Systems For

- Steam Power Plants
- Steel Mills
- Non-ferrous Metals Manufacture
- Pulp and Paper Manufacture
- Marine Power Plants
- Nuclear Power Plants
- Water and Waste Treatment
- Cement and Ceramics Manufacture

Analog and Digital Type Data Processing Systems

DIAMOND POWER SPECIALTY CORPORATION

FACILITY



LANCASTER, OHIO

PRODUCTS

SOOT BLOWERS

- Manual and Automatic Systems
- Air and Electric Operation and Control
- Air, Steam and Shot Cleaning

BOILER WATER GAUGES

- Bi-Color and Clear Vision Gauges
- Water Gauge Valves
- High and Low Water Alarms

ELECTRONICS

- Industrial (Closed Circuit) Television
- Underwater Television
- Remote Identification System
- Picture and Record Transmission Consoles
- Television Camera Picture Tubes

THE BABCOCK & WILCOX COMPANY